Undergraduate Diploma in Business Administration

[Module 5 – Strategic Management]

Lecture Title 7: Selecting Corporate-Level Strategies

ACADEMY

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Date: 20 May 2023

Undergraduate Diploma in Business Administration

Lecture 7 – Selecting Corporate-Level Strategies

1. What is corporate-level strategy and how does it differ from business-level strategy?
2. What is vertical integration and what benefits can it provide?
3. What are the three types of diversification and when should they be used?
4. What are four methods that a firm can use to implement its corporate strategy?
5. What is portfolio planning and why is it useful?
6. How can you execute an effective strategy through Organizational Design?
7. How to critically analyse the strategic position and interrelated functions of Production and Operations Management in organizations for strategic management?"
8. How do you consider all the different functional areas as part of an integrative approach?
9. How can you synthesize the knowledge gained from other business modules, bringing together into a comprehensive understanding of the concepts supporting competitive advantage?

Intro: A Focus on Strategic Planning

- ***Strategic planning as a broad concept consists of strategy formulation and strategy implementation***

- ***Strategic planning in analytical in nature***

- ***Strategic planning is done by top level management***

- ***A strategic plan is different from a business plan.***

- ***Strategic planning is the art and science of***

- ***A. creating specific business strategies***
- ***B. implementing specific business strategies***
- ***C. evaluating results of executed plans***

- ***in regard to a company's overall long-term goals or desires.***

How To Create A Strategic Plan?

Example Airbnb

- https://www.youtube.com/watch?v=4q5t2W-W2aE

- The preceding lectures focused on generic business-level, also referred to as generic competitive strategy: how firms compete head-to-head on products and services they offer.

- The intent is to develop strategies that provide a competitive advantage, so that buyers will purchase what a business has to offer instead of purchasing from a competitor.

- However, there are three types of strategy: business-level, corporate-level, and international strategy.

- In this session, the focus is on corporate-level strategy.
- Corporate-level strategy is a paradigm shift from business-level strategy.
- It asks: what businesses should the firm be in, and how can being in those businesses create synergy and improve performance?
- Diversification is the key in corporate strategy.
- There are several ways that a corporate diversification strategy can be implemented that will be examined here. The third and final type of strategy following business-level and corporate-level strategies is international strategy.

Corporate-Level Strategy Defined

- Corporate Strategy

- Specifies actions taken by the firm to gain a competitive advantage by selecting and managing a group of different businesses in several industries and/or product markets.

- In corporate-level strategy, executives seek to answer two basic questions, and then three more detailed questions.

A. What business(es) should we be in?

- With respect to the first question A, what business(es) should we be in, firms must ask:

1. *In what stage of the industry value chain should we participate?*
2. *What range of products and services should we offer?*
3. *Where geographically should we compete?*

B. How should we manage the portfolio to achieve synergy/create value?

- Synergy in the business context means the cooperation or interaction of two or more business units so that they perform more effectively together than they would if independent.
- For example, if a larger company acquires a similar smaller company, some of the administrative overhead expenses such as accounting or human resources can be combined and operate more efficiently.
- Another synergy produced is overall reduced marketing expenses since they can market their products together.

- The foundational issue in *corporate-level strategy is diversification: how can the organization diversify, and in doing so, create synergy?*

- Diversification can address geographic questions, such as how Disney established theme parks in France, Japan, and China.

- Also, moving a firm into other industries, outside the home industry, is another way to diversify. Warren Buffet's company Berkshire Hathaway owns businesses as diverse as real estate, insurance, and a railroad.

- Additionally, a firm may expand into business areas within its value chain, by acquiring suppliers upstream in the supply chain or distributors or retailers downstream.

- For example, when Disney launched its streaming service Disney+, it diversified downstream in its value chain to control and provide an outlet for the movie content it produced.

- The executives in charge of a firm such as The Walt Disney Company must decide whether to remain within their present domains or venture into new ones.

- In Disney's case, the firm has expanded from its original business (films) and into television, theme parks, cruise lines, and several others. In contrast, many firms never expand beyond their initial choice of industry.

- Disney executives could consider further diversifying geographically, diversifying into additional industries, and diversifying deeper into its value chain, for example, by acquiring some of its suppliers.

- In all these considerations, Disney needs to evaluate if and how synergy can be produced.

Diversification

- There are a variety of reasons a company may consider diversification.

- Diversification strategies can help mitigate the risk of a company operating in only one industry.

- If an industry experiences issues or slows down, being in other industries can help soften the impact.

- Companies can also diversify within their own industry.

There are three types of diversification:

1. **Related Diversification** - Diversifying into business lines in the same industry; Volkswagen acquiring Audi is an example.

2. **Unrelated Diversification** - Diversifying into new industries, such as Amazon entering the grocery store business with its purchase of Whole Foods.

3. **Geographic Diversification** - Operating in various geographic markets, which is the corporate strategy of Starbucks, Target, and KFC.

- In all three diversification strategies, the goal is to achieve synergy.

- How can the firm operate more efficiently and effectively through its diversification efforts?

Three Tests for Diversification

- A proposed diversification move must first answer three questions to determine if it should be accepted or rejected (Porter, 1987).

1. *How attractive is the industry that a firm is considering entering?*

Unless the industry has strong profit potential, entering it may be very risky. Porter's Five Forces Analysis can help with this assessment.

2. How much will it cost to enter the industry?

Executives need to be sure that their firm can recoup the expenses that it absorbs in diversifying. When Philip Morris bought 7Up, it paid four times what 7Up was actually worth. Making up these costs proved to be impossible and 7Up was sold less than 10 years later.

3. Will the new unit and the firm be better off?

Unless at least one side gains a competitive advantage, diversification should be avoided. In the case of Philip Morris and 7Up, for example, neither side benefited significantly from joining together.

Related Diversification

- Related diversification occurs when a firm moves into a new industry that has important similarities with the firm’s existing industry or industries.

- Because films and television are both aspects of entertainment, Disney’s purchase of ABC is an example of related diversification.

- Some firms that engage in related diversification aim to develop and exploit a core competency to become more successful.

- A core competency is a skill set that is difficult for competitors to imitate, can be leveraged in different businesses, and contributes to the benefits enjoyed by customers within each business.

- Honda Motor Company provides a good example of leveraging a core competency through related diversification.

- Although Honda is best known for its cars and trucks, the company actually started out in the motorcycle business.

- Through competing in this business, Honda developed a unique ability to build small and reliable engines.

- When executives decided to diversify into the automobile industry, Honda was successful in part because it leveraged this ability within its new business.

- Honda also applied its engine-building skills in the all-terrain vehicle, lawn mower, and boat motor industries.

- Honda Case study https://www.youtube.com/watch?v=wlvog-Qd0zw

Unrelated Diversification

- *"Don't put all your eggs in one basket"* is often a good motto for individual investors.
- By building a portfolio of stocks, an investor can minimize the chances of suffering a huge loss.
- Some executives take a similar approach.
- Rather than trying to develop synergy across businesses, they seek greater financial stability for their firms by owning an array of companies.
- Warren Buffett's Berkshire Hathaway has long enjoyed strong performance by purchasing companies and improving how they are run.

- Why would a soft-drink company buy a movie studio?

- It’s hard to imagine the logic behind such a move, but Coca-Cola did just this when it purchased Columbia Pictures for $750 million.

- This is a good example of unrelated diversification, which occurs when a firm enters an industry that lacks any important similarities with the firm’s existing industry or industries.

- Luckily for Coca-Cola, its investment paid off -Columbia was sold to Sony for $3.4 billion just seven years later

- Most unrelated diversification efforts, however, do not have happy endings.
- Harley-Davidson, for example, once tried to sell Harley-branded bottled water.
- Starbucks tried to diversify into offering Starbucks-branded furniture.
- Both efforts were disasters.
- Although Harley-Davidson and Starbucks both enjoy iconic brands, these strategic resources simply did not transfer effectively to the bottled water and furniture businesses.

Geographic Diversification

- Firms may also diversify through expanding geographically.
- Starbucks and KFC have found success with international expansion as well as domestic expansion.
- Synergy is developed in several ways.
- Many of the administrative functions such as logistics, procurement, human resources, and legal can be consolidated at the corporate level, so they do not need to be duplicated at each location.
- New store development is also made easier. Having already developed new stores, the firm can establish a process that it has learned from previously establishing stores, and can implement this best practice to efficiently build out, equip, and supply new stores.

Horizontal Integration: Mergers and Acquisitions

- Horizontal integration refers to pursuing a diversification strategy by acquiring or merging with a rival.

- The term merger is generally used when two similarly sized firms are integrated into a single entity.

- In an acquisition, a larger firm purchases and absorbs a smaller firm.

Horizontal Integration Examples

- ExxonMobil is a direct descendant of John D. Rockefeller’s Standard Oil Company. It was formed by the 1999 merger of Exxon and Mobil. As in many mergers, the new company name combines the old company names.

- Starbucks acquired competitor Seattle’s Best Coffee - which had a presence in Borders Bookstores and Subway Restaurants - in order to target a more working-class audience without diluting the Starbucks brand.

- https://www.youtube.com/watch?v=JVqv58T3yYs

Vertical Integration Strategies

- When pursuing a vertical integration strategy, a firm gets involved in new portions of the value chain.
- This approach can be very attractive when a firm's suppliers or buyers have too much power over the firm and are becoming increasingly profitable at the firm's expense.
- By entering the domain of a supplier or a buyer, executives can reduce or eliminate the leverage that the supplier or buyer has over the firm.
- Considering vertical integration alongside Porter's five forces model highlights that such moves can create greater profit potential.
- Firms can pursue vertical integration on their own, such as when Apple opened stores bearing its brand, or through a merger or acquisition, such as when eBay purchased PayPal.

- When using vertical integration, firms get involved in different elements of the value chain.

- This concept gets top billing at American Apparel, a firm that describes its business model as "vertically integrated manufacturing."

- The elements of their integrated process for designing, manufacturing, wholesaling, and selling basic T-shirts, underwear, leggings, dresses, and other clothing and accessories for men, women and children.

- Today, oil companies are among the most vertically integrated firms.

- Firms such as ExxonMobil and ConocoPhillips can be involved in all stages of the value chain, including

- crude oil exploration,
- drilling for oil,
- shipping oil to refineries,
- refining crude oil into products such as gasoline,
- distributing fuel to gas stations, and
- operating gas stations.

- The risk of not being vertically integrated is illustrated by the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

- Although the US government held BP responsible for the disaster, BP cast at least some of the blame on drilling rig owner Transocean and two other suppliers: Halliburton Energy Services (which created the cement casing for the rig on the ocean floor) and Cameron International Corporation (which had sold Transocean blowout prevention equipment that failed to prevent the disaster).

- In April 2011, BP sued these three firms for what it viewed as their roles in the oil spill.

- Vertical Integration https://www.youtube.com/watch?v=JXr49yp0tNc

Backward Vertical Integration

- A backward vertical integration strategy involves a firm moving back along the value chain and entering a supplier's business.
- Some firms use this strategy when executives are concerned that a supplier has too much power over their firms.
- In the early days of the automobile business, Ford Motor Company created subsidiaries that provided key inputs to vehicles such as rubber, glass, and metal.
- This approach ensured that Ford would not be hurt by suppliers holding out for higher prices or providing materials of inferior quality.

Forward Vertical Integration

- A forward vertical integration strategy involves a firm moving further down the value chain to enter a buyer's business.

- Disney has pursued forward vertical integration by operating more than three hundred retail stores that sell merchandise based on Disney's characters and movies.

- This allows Disney to capture profits that would otherwise be enjoyed by another store. Each time a Frozen book bag is sold through a Disney store, the firm makes a little more profit than it would if the same book bag were sold by a retailer such as Target.

Key Takeaways

- Diversification strategies involve a firm stepping beyond its existing industries and entering a new value chain.
- Generally, related diversification (entering a new industry that has important similarities with a firm's existing industries) is wiser than unrelated diversification (entering a new industry that lacks such similarities). Geographic diversification is another strategy to drive synergy.
- A horizontal diversification strategy involves trying to compete successfully within a single industry. • Mergers and acquisitions are popular moves for executing a concentration strategy, but executives need to be cautious about horizontal integration because the results are often poor.
- Vertical integration occurs when a firm gets involved in new portions of the value chain. By entering the domain of a supplier (backward vertical integration) or a buyer (forward vertical integration), executives can reduce or eliminate the leverage that the supplier or buyer has over the firm

Implementing Corporate Strategy

- Once a firm decides which corporate strategy to pursue, it must implement that strategy successfully.

- As noted earlier, many attempts to diversify end in failure. Executing a good implementation plan successfully is key.

- There are various ways that a firm can implement their corporate diversification strategy.

- These are:
- Internal Development
- Strategic Alliance
- Joint Venture
- Merger and Acquisition

Strategies for Getting Smaller

- *"In what industry or industries should our firm compete?"* is the central question addressed by corporate-level strategy.

- In some cases, the answer that executives arrive at involves exiting one or more industries.

Retrenchment

- Firms following a retrenchment strategy shrink one or more of their business units.

- Much like an army under attack, firms using this strategy hope to make just a small retreat rather than losing a battle for survival. It is also commonly referred to as "downsizing" or "rightsizing."

- Retrenchment is often accomplished through laying off employees.

Restructuring

- Spin-offs occur when businesses create a new firm from a piece of their operations.

- Because some diversified firms are too complex for investors to understand, breaking them up can create wealth by resulting in greater stock market valuations.

- Spinning off a company also reduces management layers, which can lower costs and speed up decision making.

Examples of Spin Offs

- There are 17 billion of Freescale Semiconductor's chips in use around the world. The firm was spun-off from Motorola.
- Toyota started in the car business, right? Wrong.
- The firm was spun-off in the 1930s from Toyoda Automatic Loom Works - a company that produced commercial weaving looms.
- Delphi Automotive - an automotive parts company headquartered in Troy, Michigan - is a spin-off from General Motors.

Portfolio Planning and Corporate-Level Strategy

- **Top Level Management** in charge of firms involved in many different businesses must figure out how to manage such portfolios.

- General Electric (GE), for example, competed in a very wide variety of industries, including financial services, insurance, television, theme parks, electricity generation, lightbulbs, robotics, medical equipment, railroad locomotives, and aircraft jet engines.

- When leading a company such as GE, executives must decide which units to grow, which ones to shrink, and which ones to abandon.

- Portfolio planning can be a useful tool.

- Portfolio planning is a process that helps executives assess their firms' prospects for success within each of its industries, offers suggestions about what to do within each industry, and provides ideas for how to allocate resources across industries.

- Portfolio planning first gained widespread attention in the 1970s, and it remains a popular tool among executives today.

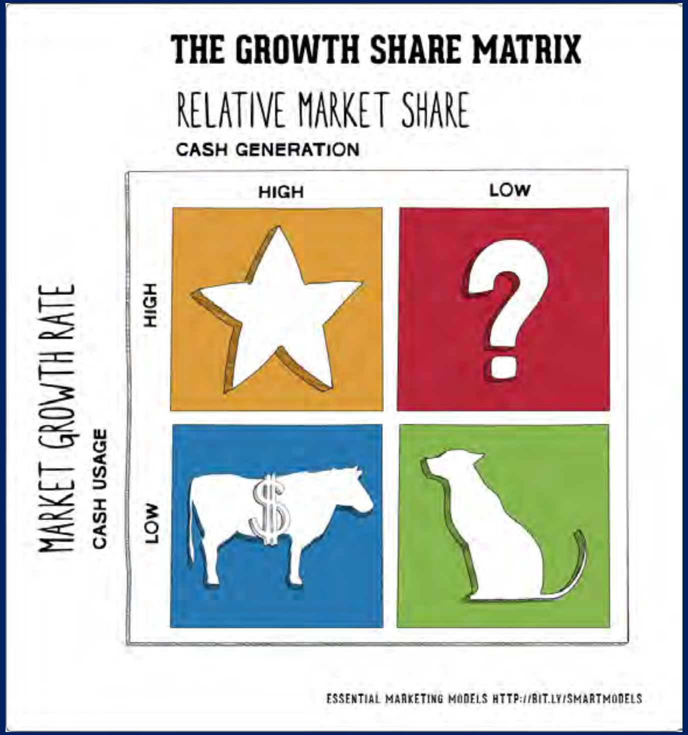
The Boston Consulting Group Matrix

- **The Boston Consulting Group (BCG) Matrix is the best-known approach to portfolio planning.**

- **Using the matrix requires a firm's businesses to be categorized as high or low along two dimensions: its share of the market and the growth rate of its industry.**

- **The BCG Matrix has four quadrants or categories:**

- ***The BCG Matrix is based on Industry Growth rate & Relative market share***



- **Cash Cows**: High market share units within slowgrowing industries are called cash cows. Because their industries have bleak prospects, profits from cash cows should not be invested back into cash cows but rather diverted to more promising businesses.

- **Dogs**: Low market share units within slowgrowing industries are called dogs. These units are good candidates for divestment.

- **Stars**: High market share units within fastgrowing industries are called stars. These units have bright prospects and thus are good candidates for growth.

- **Question Marks**: Finally, low-market-share units within fast-growing industries are called question marks. Executives must decide whether to build these units into stars, hold them, or to divest them.

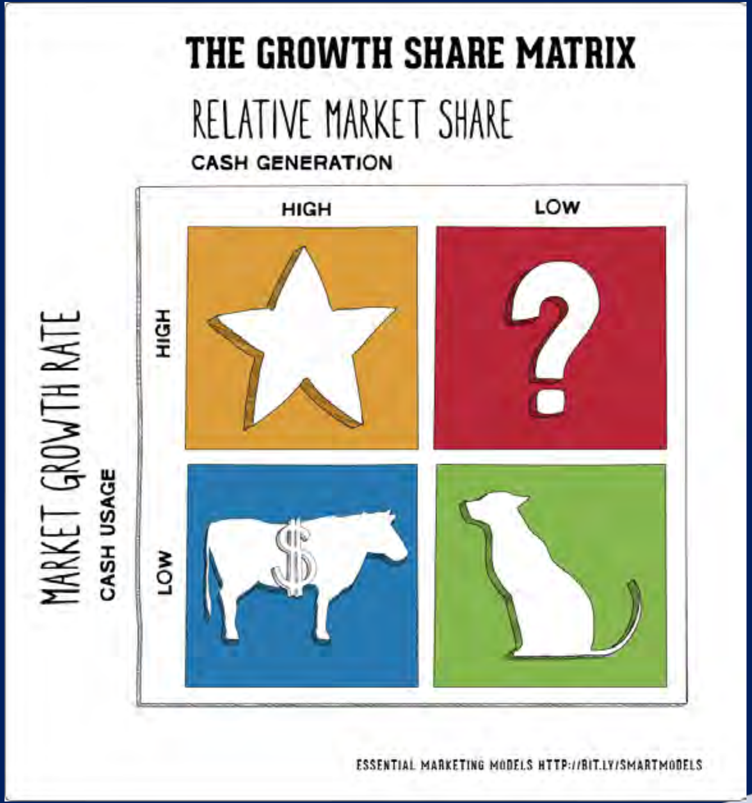
- The various business units that a company has are plotted on the matrix.

- Once plotted, decisions can be made about the portfolio of businesses the company operates, such as where more investment would be beneficial, and which units may be candidates to divest.

- The Boston Consulting Group matrix is the best-known approach to portfolio planning - assessing a firm’s prospects for success within the industries in which it competes.

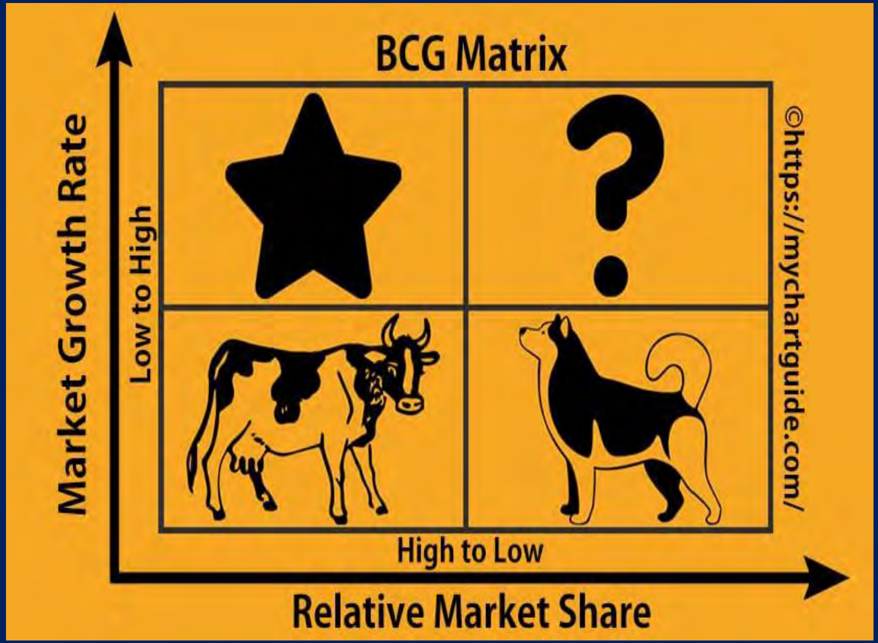
- The matrix categorizes businesses as high or low along two dimensions - the firm’s market share in each industry and the growth rate of each industry.

- Suggestions are then offered about how to approach each industry.



The Boston Consulting Group Matrix

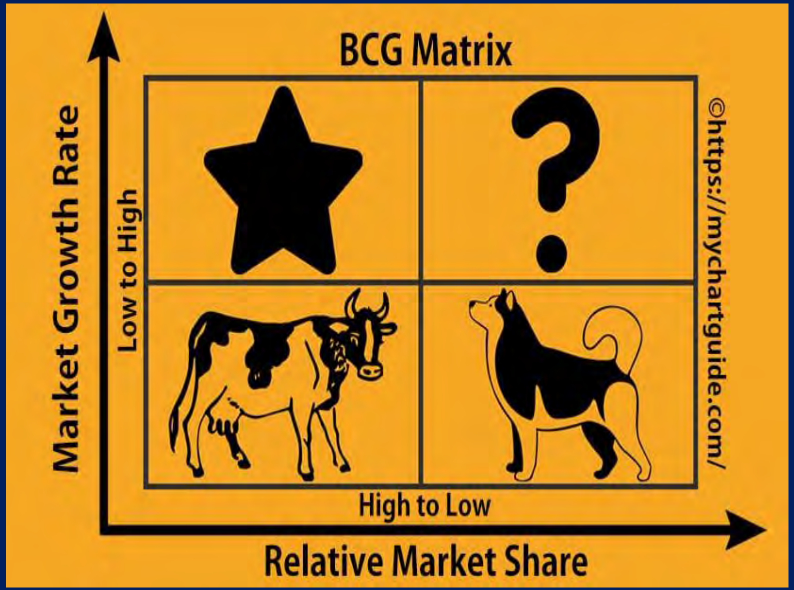
- <u>**Low Relative Market Share**</u>
- ***High Industry Growth Rate***
- **Question marks should be resolved by executives by deciding whether to foster or sell these units.**
- ***Low Industry Growth Rate***
- **It sounds mean, but dogs should be sold if possible and abandoned if necessary**



- <u>**High Relative Market Share**</u>

- ***High Industry Growth Rate***
- **Stars should be funded and encouraged to grow**

- ***Low Industry Growth Rate***
- **Cash cows should be "milked" to supply funds to more promising businesses.**



- To use the BCG Matrix, the company needs to know the market share for each of its business lines and the relative growth rate.

- It is important to set the scales on both axes so that the midpoints are roughly in the middle of the range of the market share and growth rates of the business units.

- Once the axes are set, the business units are plotted on the matrix relative to each other.

- BCG Matrix with examples
- https://www.youtube.com/watch?v=j_mac7OWX3g

Limitations to Portfolio Planning

- Although portfolio planning is a useful tool, this tool has important limitations.
- First, portfolio planning oversimplifies the reality of competition by focusing on just two dimensions when analyzing a company's operations within an industry. Many dimensions are important to consider when making strategic decisions, not just two.
- Second, portfolio planning can create motivational problems among employees. For example, if workers know that their firm's executives believe in the BCG Matrix and that their subsidiary is classified as a dog, then they may give up any hope for the future.
- Similarly, workers within cash cow units could become dismayed once they realize that the profits that they help create will be diverted to boost other areas of the firm.
- Third, portfolio planning does not help identify new opportunities. Because this tool only deals with existing businesses, it cannot reveal what new industries a firm should consider entering.

Key Takeaway

- Portfolio planning is a useful tool for analyzing a firm’s various business units, but this tool has limitations.

- The BCG matrix is one of the most widely used approaches to portfolio planning.

Groups Exercise

- Competing in International Markets:

1. What are the benefits and advantages?

2. What are the challenges?

Competing in International Markets

- International strategy is the third and final type of strategy.
- The first, generic business-level/competitive strategy, is how companies directly compete with rivals on their products and services.
- Corporate strategy is how a firm might diversify to compete in other industries or expand geographically to reduce risk and grow profits.
- In international strategy, a firm may desire to expand by entering into new foreign markets or to lower its costs.

- There are advantages and opportunities when going international, but it is not without risks.
- There are several tools that firms use to help them assess their potential success when their strategic management process points them abroad.
- Firms will need to determine which one of four international strategies will work best and which method to enter another country.
- Some companies have found great success going international, while others have struggled or failed.

Why Compete in New Markets?

- Access to new customers and new markets.
- China's population is roughly four times as large as that of the United States.
- While political, cultural, and economic differences add danger to trade with China, the immense size of the Chinese market appeals to American firms.

Lowering costs

- Access to cheaper raw materials and labour have led to considerable outsourcing and offshoring.

- Call centers in India have become so sophisticated that many Indian customer service representatives take extensive language training to learn UK dialects and regional US dialects as well.

Diversification of business risk

- Business risk refers to the risk of an operation failing.
- Competing in multiple markets allows this risk to be spread out among many economies and customers.
- Coca-Cola, for example, has a presence in over 200 markets worldwide.

- The use of PESTEL can be a valuable tool in assessing the risk for a firm considering international diversification.

- Analyzing the industry within the target country could provide valuable insights on whether to enter that market or not.

- For example, if Apple were to consider shifting some of its product manufacturing to India, what do the PESTEL forces reveal for the Indian IT industry?

PESTEL Analysis of the IT Industry in India

- **Political** - Moderate, positive & negative: Stable government, democracy, international companies highly regulated.
- **Economical** - Strong, positive: Low cost labour, IT has strong growth.
- **Socio-cultural** - Strong, positive: Many speak English, strong education
- **Technological** - Strong, positive: Strong growth
- **Ecological** - Weak
- **Legal** - Moderate, negative: Highly regulated

- In conclusion, a PESTEL analysis reveals that overall it would be a positive move for Apple to do manufacturing in India, but will need to comply with many laws and regulations.

Political Risk

- Although competing in international markets offers important potential benefits, such as access to new customers, the opportunity to lower costs, and the diversification of business risk, going overseas also poses daunting challenges.

- Political risk refers to the potential for government upheaval or interference with business to harm an operation within a country.

- For example, the term “Arab Spring” has been used to refer to a series of uprisings in 2011 within countries such as Tunisia, Egypt, Libya, Bahrain, Syria, and Yemen.

- Unstable governments associated with such demonstrations and uprisings make it difficult for firms to plan for the future.

Economic risk

- This refers to the potential for a country's economic conditions and policies, property rights protections, and currency exchange rates to harm a firm's operations within a country.

- Executives who lead companies that do business in many different countries have to take stock of these various dimensions and try to anticipate how the dimensions will affect their companies.

- Because economies are unpredictable, economic risk presents executives with tremendous challenges.

Cultural risk

- This refers to the potential for a company's operations in a country to struggle because of differences in language, customs, norms, and customer preferences).

- The history of business is full of colourful examples of cultural differences undermining companies.

- For example, a laundry detergent company was surprised by its poor sales in the Middle East.

- Executives believed that their product was being skilfully promoted using print advertisements that showed dirty clothing on the left, a box of detergent in the middle, and clean clothing on the right. A simple and effective message, right? Not exactly.

- Unlike English and other Western languages, the languages used in the Middle East, such as Hebrew and Arabic, involve reading from right to left. To consumers, the implication of the detergent ads was that the product could be used to take clean clothes and make them dirty.

- Not surprisingly, few boxes of the detergent were sold before this cultural blunder was discovered.

Examples of Cultural Risk

- Provocative dress is embraced by many Americans, but many people in Muslim countries consider a woman's clothing to be inappropriate if it reveals anything besides the face and hands.
- Do you pride yourself on your punctuality? You may be wasting your time in Latin American countries, where the locals tend to be about 20 minutes behind schedule.
- Do not eat with your left hand in India or Malaysia. That hand is associated with unclean activities reserved for the bathroom.
- In many Asian and Arabian countries, showing the sole of your shoe is considered rude.
- If everything is OK when you're in Brazil, avoid making the "OK" hand signal. It's the equivalent to giving someone the middle finger.
- Do not clean your plate in China. Leaving food on the plate indicates the host was so generous that the meal could not be finished.
- In Japan, direct eye contact is viewed as impolite.

Executing Strategy through Organizational Design

- The way a firm organizes itself is critical to its ability to implement strategy.

- Organizational structure is important to achieving a firm's strategic goals - which types of structures are deployed by firms and what control systems are used by firms.

- These organizational decisions should support and align with an organization's mission, vision, and values to ensure ethical as well as strategic outcomes.

"Structure makes possible the application of the process of management and creates a framework of order and command through which the activities of the organisation can be planned, organised, directed and controlled."

Mullins

The Importance of Structures (Child)

Poor structures can lead to:

- low morale;
- late and inappropriate decisions;
- conflict and lack of co-ordination;
- poor response to new opportunities and external changes;
- rising costs;

These hinder the implementation of strategies and business processes. As strategy develops and evolves, so internal structures must flex and change to fit in with the requirements.

The building blocks of organisations proposed by Mintzberg (1979)

- The operating or production core, where basic work is produced, for example a factory floor or branch outlet;
- The strategic apex, where general management occurs, for example the head office of a financial services organisation;
- The middle line, that is the managers positioned between the strategic apex and the operating core;
- the techno-structure, the analysts who design the systems for work processes;
- The support staff, who facilitate the work of the operating core, e.g. human resource management;
- the ideology of culture of the organisation.

These building blocks of the organisation are coordinated through supervision and standardisation of processes and outputs.

The choice of building blocks and coordinating mechanisms led Mintzberg to conclude that there were six major organisational configurations or structures:

1. The simple structure, which is characterised by the entrepreneurial style and which has few of the activities formalised.

2. The machine bureaucracy, following centrally established rules and principles.

3. The professional bureaucracy, where power is based on expertise not formal position in the hierarchy.

4. Divisionalised structures, in which the business is divided up into autonomous regions or product businesses.

5. The adhocracy, with few formal structures or procedures.

6. The missionary organisation, which is dominated by the culture of the organisation and relies little on structures.

Mechanistic and Organic Systems

A **mechanistic system** is characterised by:

reliance on formal rules and regulations, centralisation of decision making, narrowly defined job responsibilities and a rigid hierarchy of authority.

In contrast, an **organic system** is characterised by:

low to moderate use of formal rules and regulations, decentralised and shared decision making and a flexible authority structure with fewer levels.

Forms of Organisational Structure

Different ways of organising and structuring activities will be explored. There are a number of alternative designs:

- Functional;
- Product Specialisation;
- Geographic;
- Divisionalised;
- Matrix
- Network

Functional Specialisation

Definition:

Functional Specialisation involves the creation of positions and departments on the basis of specialised activities.

Functional grouping of employees is the most widely used and accepted form of departmentalisation.


Functional Organization
President
R&D Manager
Design
Development
Testing
Finance Manager
Accounting
Purchasing
Finance
Marketing Manager
Sales
Customer Service
Division Product Z
Line Supervisors
Production Teams
Distribution

Functional Specialisation (Pros)

This structure can be achieved by grouping activities together on the basis of their function, e.g. personnel, marketing, finance and information systems.

- The advantages are that this structure groups together those similar technical expertise, thus providing better co-ordination and promotion opportunities.

Functional Specialisation (Cons)

However, this type of structure can create sectional conflicts and a strong sense of territorial power.

- It is also more difficult to judge the performance of different services and products and it can slow down the response time for innovations.

- It is typified in the central head office departments.

Functional Specialisation

Significance in Practice:

- It permits clear identification and assignment of responsibilities and employees easily understand it.

- People doing similar tasks and facing similar problems work together, thus increasing opportunities for interaction and mutual support.

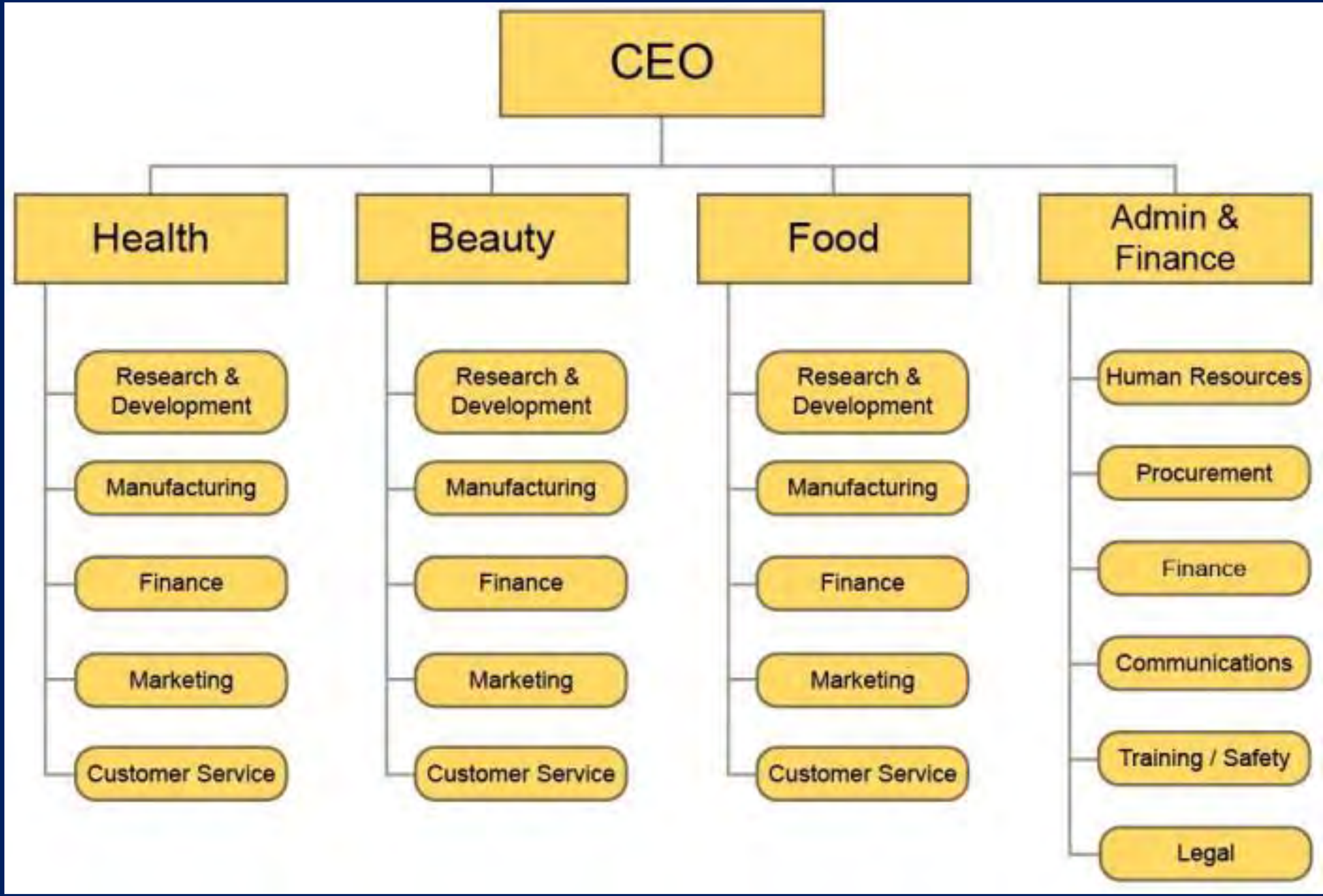
- However it fosters a limited view that focuses on a narrow set of tasks. Employees may lose sight of the organisation as a whole. Horizontal integration across functional departments is often difficult.

Product Specialisation

Definition:

Product specialisation involves the establishment of self-contained units, each capable of developing, producing, marketing and distributing its own goods or services.

Product Specialisation



Product Specialisation (Pros)

In this structure the organisation is grouped on the basis of the products developed, e.g. mortgage, lending or pensions products.

This type of structure can encourage:

- diversification, allowing individuals to cope better with technological change because expertise and specialised equipment are grouped together.
- the structure also allows units to be run as profit centres and can lead to better targets and control systems.

Product Specialisation (Cons)

However it can lead to the promotion of one product at the expense of others because the profitability of each product line and its use of resources are clearly indicated.

There is also no encouragement of functional competence because each product division will employ its own marketing, human resource staff, etc. and therefore no significant grouping of functional expertise.

Product Specialisation

Significance in Practice:

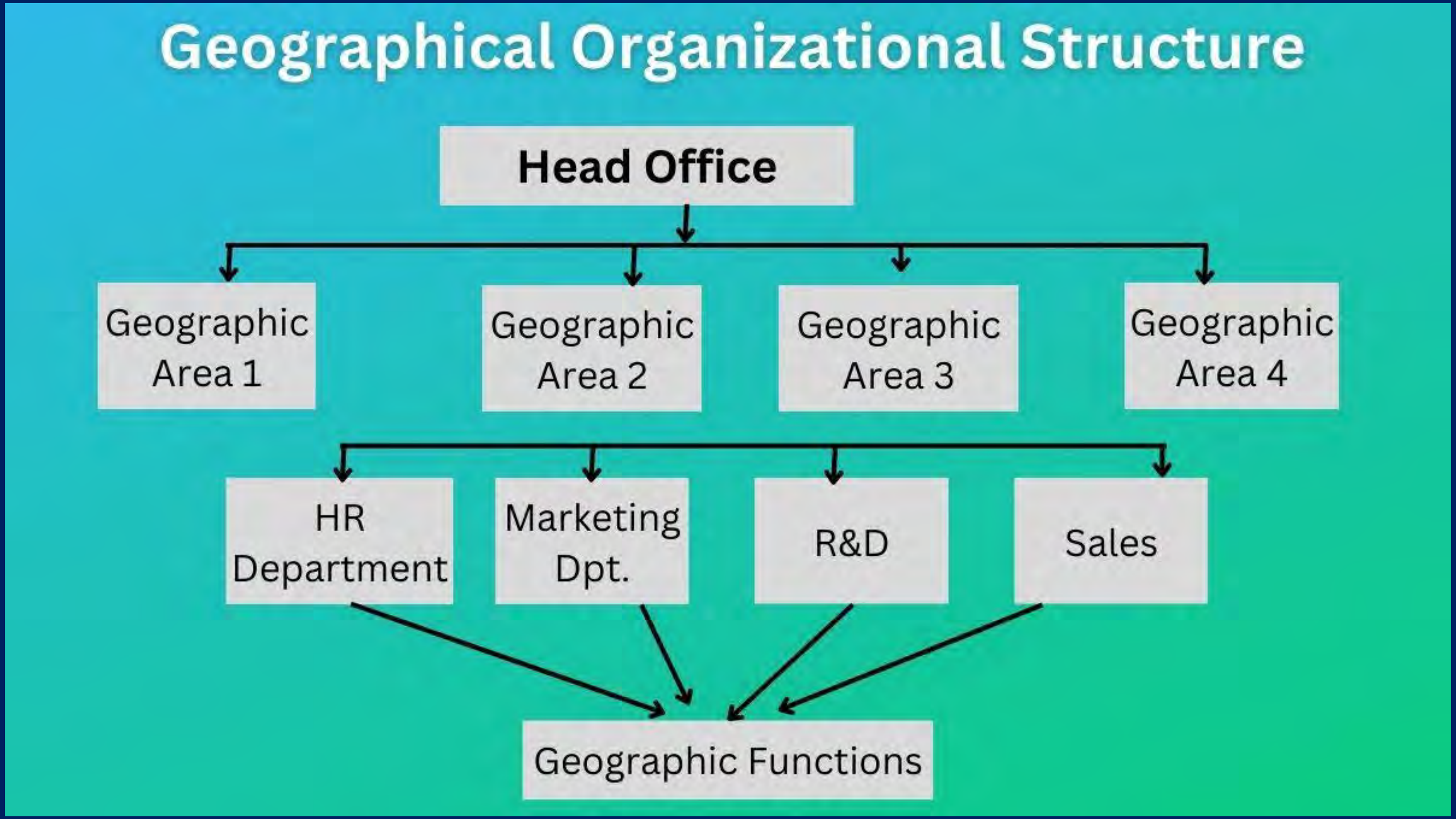
- It reduces the information overload that managers face in a purely functional organisational design.
- Each division is focused on its objectives and is then evaluated on its performance.

Geographical Specialisation

Definition:

Geographical specialisation involves establishing an organisation's primary units geographically while retaining significant aspects of functional design.

All functional groups for one geographic area are located in one location.


Geographical Organizational Structure
Head Office
Geographic Area 1
Geographic Area 2
Geographic Area 3
Geographic Area 4
HR Department
Marketing Dpt.
R&D
Sales
Geographic Functions

Geographical Specialisation (Pros)

- The structure is grouped geographically, allowing for decisions and control to be exercised at national or regional level.

- This structure enables the organisation to incorporate a sound knowledge of local markets and conditions into its strategy.

Geographical Specialisation (Cons)

- However, it can create difficulties associated with a loss or lack of centralised control.

- An example of this type of structure within the financial services sector would be the organisation of the branch network into regional groupings or indeed global companies who group their structure around countries e.g. National Australia Bank and its subsidiary Yorkshire Bank UK.

Geographical Specialisation

Significance in Practice:

- Each region faces unique challenges.
- It also serves to address cultural and legal differences in various countries.
- Each division is thus in direct contact with customers in its locale and can adopt more readily and faster to their demands.

Divisionalised Structure

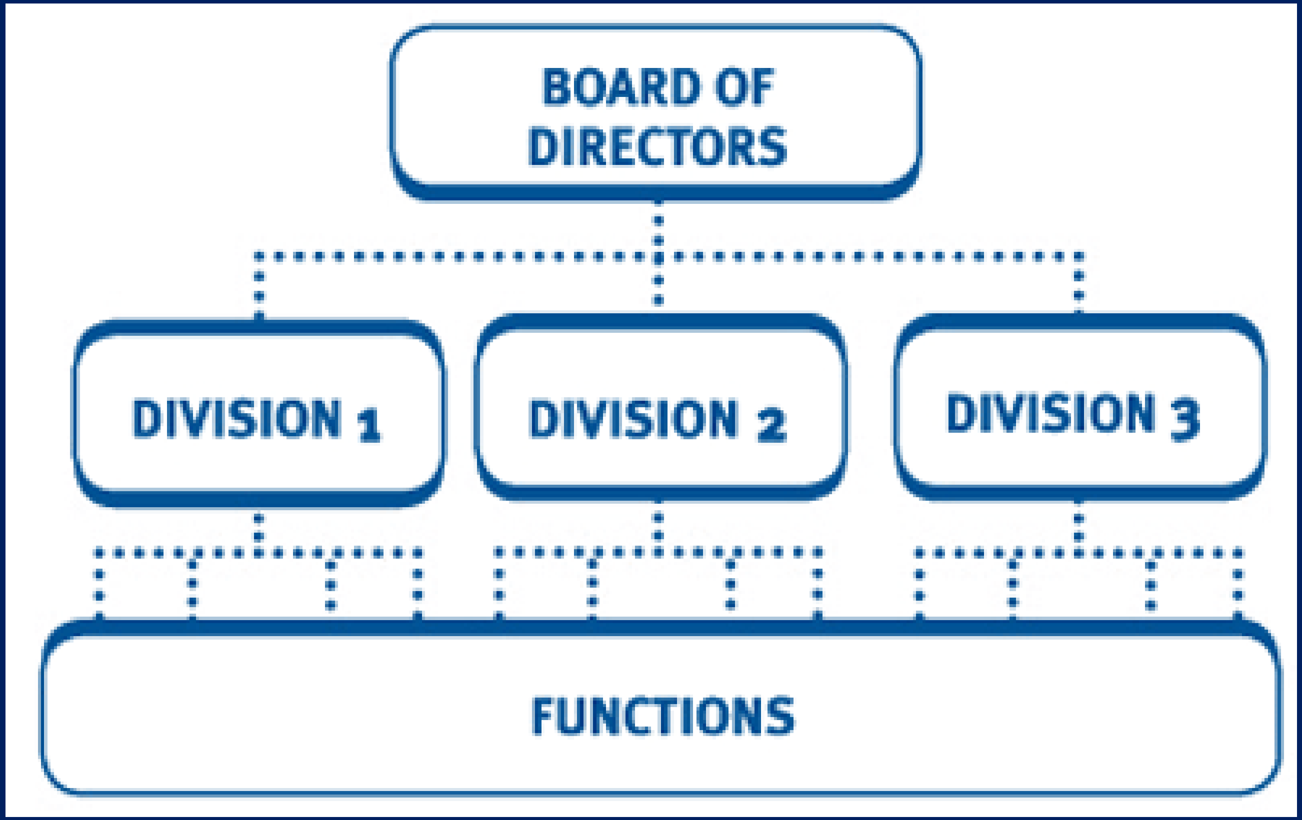
Definition:

In divisionalised structure, tasks are organised by division on the basis of the product or geographic markets in which the goods or services are sold.

Divisional managers are primarily responsible for day-to-day operating decisions within their units.

Top level corporate managers, therefore, can concentrate on strategic issues.

Divisionalised Structures

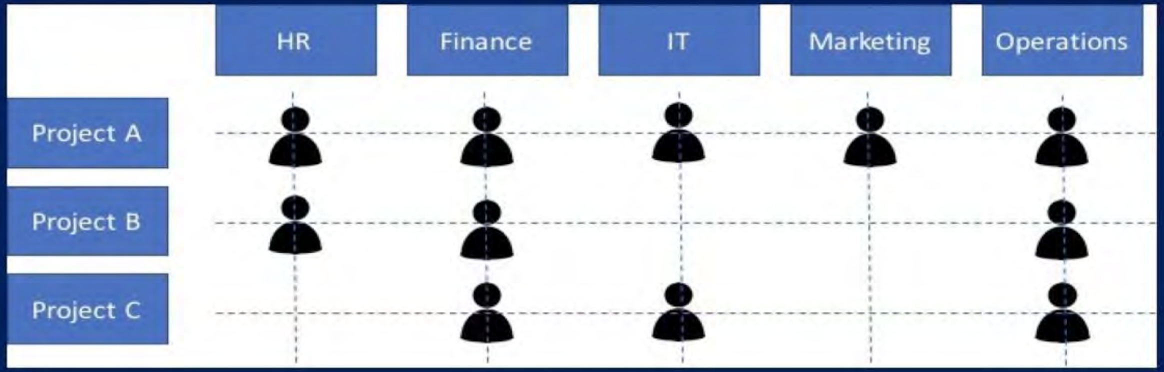


Matrix

- In a matrix structure, employees are grouped based on both their functional expertise and the projects or products they are working on.

- This structure is often used in organizations that operate in complex and dynamic environments, where flexibility and collaboration across different departments or teams are essential.

Matrix Organization



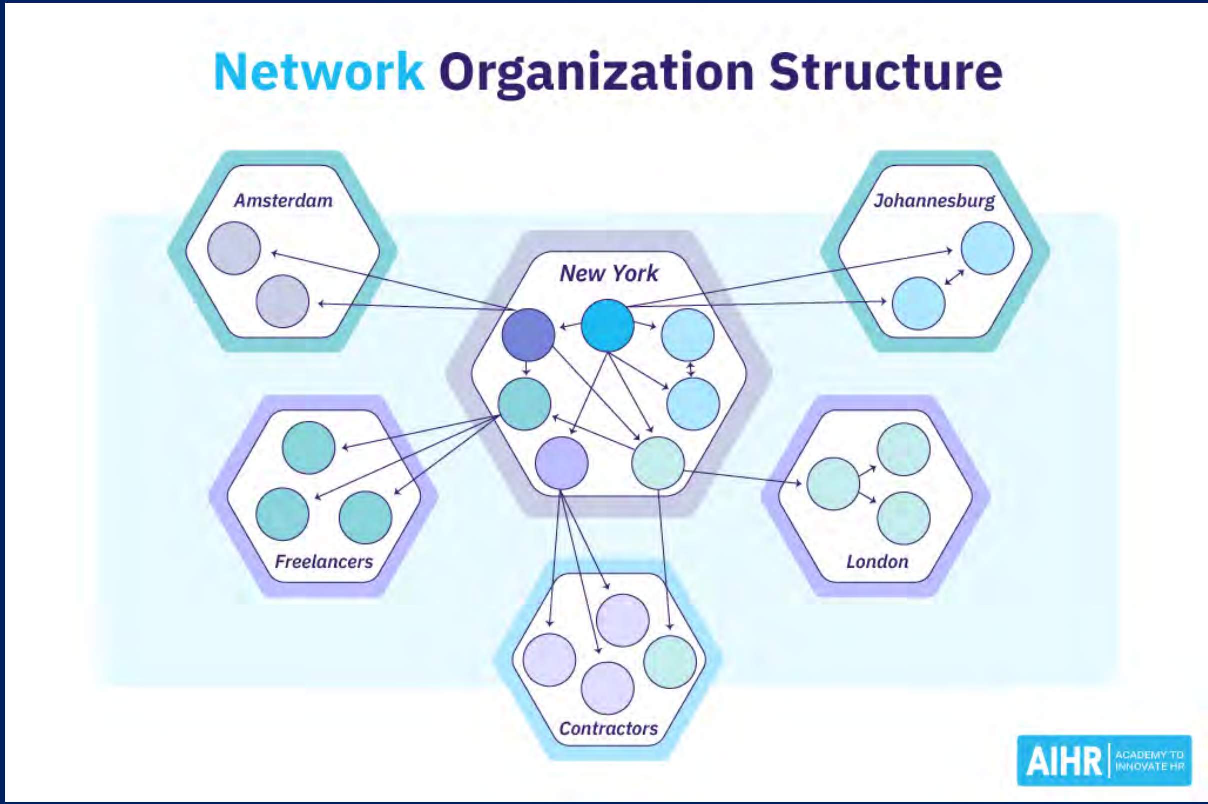
- In a matrix structure, employees have two chains of command: a functional manager and a project or product manager.

- The functional manager oversees the employee's work within their area of expertise, while the project or product manager provides guidance and direction on specific projects or products.

- This dual reporting relationship allows for cross-functional collaboration, sharing of resources, and effective communication across different parts of the organization.

Network

- A network structure, also known as a network organization or networked structure, is a type of organizational structure characterized by a flexible and decentralized approach to management.



- In a network structure, the organization is composed of a network of interconnected and interdependent nodes or units, which can be individuals, teams, departments, or even external partners and suppliers.

Harvard Business Review Reading

What are the key learning points?

- Design Your Organization to Match Your Strategy
- by Ron Carucci
- and Jarrod Shappell

- https://hbr.org/2022/06/design-your-organization-to-match-your-strategy

Organisational Structures: additional information

- https://www.youtube.com/watch?v=xuGh-jzupzc

- **How do you consider all the different functional areas as part of an integrative approach?**

- Considering all the different functional areas as part of an integrative approach involves recognizing their interdependencies and ensuring alignment towards overall organizational goals.

- Here are some key steps to consider:

- **Identify Functional Areas:**
- Begin by identifying the various functional areas within the organization, such as marketing, finance, operations, human resources, sales, and research and development. Each functional area plays a unique role in the organization's success.

- **Understand Strategic Objectives:**
- Gain a clear understanding of the organization's strategic objectives, mission, and vision. These high-level goals provide the foundation for aligning the different functional areas.

- **Foster Cross-Functional Communication:**
- Encourage open communication and collaboration among different functional areas. Establish channels for sharing information, insights, and challenges across departments to foster a holistic understanding of the organization's operations.

- **Establish Cross-Functional Teams:**
- Create cross-functional teams or task forces to address specific strategic initiatives or projects. By bringing together representatives from different functional areas, you can leverage diverse expertise and ensure multiple perspectives are considered.

- **Set Clear Roles and Responsibilities:**
- Clearly define the roles and responsibilities of each functional area in contributing to the overall strategic objectives. This helps avoid overlaps, gaps, and conflicts and ensures everyone understands their specific contributions towards the organization's success.

- **Align Functional Strategies:**
- Each functional area should develop its own strategies and action plans that align with and support the overall organizational strategy. Regularly review and update these strategies to ensure continued alignment with changing business needs.

- **Collaborate on Planning and Decision-Making:**
- Involve representatives from different functional areas in the planning and decision-making processes. This collaborative approach ensures that decisions consider the implications and requirements of multiple functions, leading to more effective and integrated outcomes.

- **Share Performance Metrics and Evaluation:**
- Establish shared performance metrics and evaluation criteria that consider the contributions and outcomes of each functional area. This promotes a shared understanding of performance expectations and encourages collaboration to achieve common goals.

- **Encourage Continuous Improvement:**
- Foster a culture of continuous improvement across functional areas. Encourage employees to share best practices, lessons learned, and innovative ideas to drive organizational effectiveness and efficiency.

- **Regularly Review and Adjust:**
- Continuously monitor and review the performance and alignment of functional areas with the overall organizational strategy. Regularly assess the effectiveness of the integrative approach and make adjustments as necessary to ensure ongoing alignment and success.

- By considering all functional areas as part of an integrative approach, organizations can leverage the synergies between departments, enhance communication and collaboration, and achieve greater overall organizational effectiveness.

- How to critically analyse the strategic position and interrelated functions of Production and Operations Management in organizations for strategic management?"

- Analyzing the strategic position and interrelated functions of Production and Operations Management (POM) in organizations for strategic management requires a comprehensive approach.

- Here are some steps to critically analyze the strategic position and interrelated functions of POM:

- **Understand the Organizational Strategy:**
- Start by gaining a deep understanding of the overall strategic direction and goals of the organization. This includes examining the mission, vision, and objectives, as well as any relevant strategies or plans.

- **Evaluate the External Environment:**
- Conduct an analysis of the external environment to identify factors such as market trends, competitive landscape, customer expectations, and regulatory influences. This analysis helps to identify the strategic challenges and opportunities that POM must address.

- **Assess Internal Capabilities:**
- Evaluate the internal capabilities of the organization, particularly in terms of production and operations. This includes analyzing the resources, technologies, infrastructure, and skills available for managing production and operations effectively.

- **Analyze the Strategic Fit:**
- Assess the alignment between the organization's overall strategy and its production and operations strategy. Evaluate how effectively POM supports the achievement of strategic objectives and competitive advantage. Identify any gaps or areas for improvement.

- **Identify Key Functions and Processes:**
- Identify the key functions and processes within production and operations, such as capacity planning, inventory management, quality control, supply chain management, and lean manufacturing. Evaluate how these functions contribute to the overall strategic objectives of the organization.

- **Evaluate Performance Metrics:**
- Analyze the performance metrics and key performance indicators (KPIs) used to measure the effectiveness and efficiency of production and operations. Assess how well these metrics align with the strategic goals and whether they provide meaningful insights for decision-making.

- **Consider Interrelationships and Dependencies:**
- Understand the interrelationships and dependencies between production and operations and other functional areas within the organization, such as marketing, finance, and human resources. Evaluate how these interactions impact the overall strategic management of the organization.

- **Identify Opportunities for Improvement:**
- Based on the analysis conducted, identify opportunities for improving the strategic position and interrelated functions of production and operations. This may involve streamlining processes, adopting new technologies, implementing quality improvement initiatives, or optimizing the supply chain.

- **Develop Action Plans:**
- Develop action plans to address the identified opportunities and challenges. These plans should outline specific steps, timelines, responsibilities, and resource requirements for implementing changes and improvements in production and operations.

- **Monitor and Adjust:**
- Continuously monitor the performance of production and operations against the strategic objectives. Regularly review and adjust the strategies and actions as needed to ensure ongoing alignment with the organization's overall strategic management goals.

- How can you synthesize the knowledge gained from other business modules, bringing together into a comprehensive understanding of the concepts supporting competitive advantage?

- Synthesizing knowledge from different business modules to develop a comprehensive understanding of the concepts supporting competitive advantage involves

- integrating key concepts,
- identifying relationships, and
- applying them to real-world scenarios.

- Here's an approach to accomplish this:

- **Identify Key Business Modules:**

- Begin by identifying the relevant business modules that contribute to competitive advantage.

- These may include modules such as strategic management, marketing, operations, finance, human resources, and innovation.

- **Extract Key Concepts:**

- Review each business module and extract the key concepts and theories that are relevant to competitive advantage.

- These may include concepts such as value creation, differentiation, customer segmentation, cost leadership, resource-based view, marketing mix, supply chain management, talent acquisition, financial analysis, and innovation strategies.

- **Analyze Interconnections:**

- Identify the interconnections and relationships between the concepts from different modules.
- For example, how marketing strategies contribute to differentiation, how operational efficiency affects cost leadership, or how human resource management impacts organizational capabilities.
- Consider the cause-and-effect relationships and dependencies between these concepts.

- **Conduct Comparative Analysis:**
- Conduct a comparative analysis of different companies or industries to understand how they have leveraged different concepts to achieve competitive advantage.
- Compare their strategies, operational practices, marketing approaches, and organizational capabilities to identify common patterns and best practices.

- **Integrate Findings:**

- Synthesize the knowledge gained from various business modules, case studies, and analyses to develop a comprehensive understanding of the concepts supporting competitive advantage.

- Identify overarching principles and frameworks that can guide strategic decision-making and enhance the organization's competitive positioning.

- **Continuously Update and Learn:**

- Competitive advantage is dynamic and subject to change.

- Stay updated with the latest research, industry trends, and emerging concepts to ensure the continuous development of knowledge and the ability to adapt strategies accordingly.

- What Is Strategy? Complete Guide to the Strategic Planning Process - From Planning to Execution

- https://www.youtube.com/watch?v=h7u1vV4ZQ9I