Learning Objectives
On Completion of This Chapter You Should be able to

• You will understand relationship between strategy and structure.
• You will understand the importance of structural change in strategy implementation
• You will understand the organization structure concept through the example of organization structure of Hindustan Lever Ltd.

Introduction
Structural implementation of strategy involves designing of organisation structure and interlinking various units and subunits of the organisation created as a result of the organisation structure. Organisation structure is the pattern in which the various parts of the organisation are interrelated or interconnected. Thus, it involves such issues as to how the work of the organisation will be divided and assigned among various positions, groups, departments, divisions, etc. and the coordination, necessary to accomplish organisational objectives: will be achieved. Thus, there are two aspects of organisational design: differentiation and integration. Differentiation refers to ‘the differences in cognitive and emotional orientations among managers in different functional departments’ and integration refers to ‘the quality of the state of collaboration that are required to achieve unity of efforts in the organisation’.  

Therefore, the organisation must emphasize on both the aspects: it must design organisation structure and provide systems for interaction and coordination among organization’s parts and members.

Strategy-Structure Relationship
There is close relationship between an organization’s strategy and its structure. The understanding of this relationship is important so that in implementing the strategy, the organisation structure is designed according to the needs of the strategy. The relationship between strategy and structure can be thought in terms of utilizing structure-for strategy implementation because structure is a means to an end and not an end in itself. The master appropriate end is the objectives for which the organisation exists in the first place, as revealed by its strategy. Without coordination between strategy and structure, the most likely outcomes are confusion, misdirection, and splintered efforts within the organisation. Research evidence also suggests that structure follows strategy. According Chandler, changes in organizations strategy bring about new administrative problems which, in turn, require a new refashioned structure if the new strategy is to be successfully implemented. Chandler has found structure tends to follow the growth strategy of the organisation but not until inefficiency and internal operating problems provoke a structural adjustment. Thus organisational actions proceed in a particular sequence; new strategy creation, emergence of new administrative problems, a decline in portability and performance, a shift to a more appropriate organisation structure, then recovery to improved strategy execution and more profit and performance. However, this sequence can be broken if suitable organisation structure is conceived at the starting point of strategy implementation.

The relationship between strategy and structure, however, should not be viewed merely as one-way traffic, rather it should be viewed as two-way traffic. On the one hand, the structure should be according to the need the strategy so that it is implemented effectively. On the other hand, structure of the organisation may playa critical role in influencing its choice of strategy. Recognition of this two-way interaction between strategy and structure is crucial for a complete understanding of the criteria, which underlie structural design. It becomes obvious that a top management perspective in structural design is necessary when one understands that such a design is a result of overall strategy, and the success of the strategy is also dependent on that design. The interdependence of structure with strategy can be summarized by quoting Cannon who has derived from his long experience of his consulting firms in devising strategies and organizing companies. He observes:

“The experience of McKinsey supports the view that neither strategy nor structure can be determined independently of the other. If structure cannot stand alone without strategy, it is equally true that strategy can rarely succeed without an appropriate structure. In almost every kind of large-scale enterprise, examples can be found where well-conceived strategic plans were thwarted by an organisation structure that delayed the execution of the plans or gave priority to wrong set of considerations... good structure is inseparably linked to strategy...”

Relating Structure to Strategy
The close association of structure with strategy suggests that the organisation should relate its structure with its strategy. It should design the structure according to the needs of the strategy for- its effective implementation. Without coordination between strategy and structure, the most likely outcomes are confusion misdirection, and splintered efforts within the organisation. The structure is a means to implement a particular strategy and, therefore, the good structure is one, which best fits with the strategy. In evaluating whether the structure is designed properly to meet the needs of the strategy, two questions can be posed:

1. What functions and activities should be performed for the success of the strategy?
2. Is structure adaptable to the pressure of the external environment?
The answer of these two questions should point squarely at the functions essential to strategic success. However, in applying the test of consistency of strategy and structure, the strategist frequently meets three difficult. First, as he attempts to relate structure to strategy, he may find the strategy unclear, emerging. The basic question that should be put for answer before diagnosing the structural adequacy is: how definite is the strategy? If the answer to this question is uncertain, how does a manager test the adequacy of his organisation structure? Therefore, if the strategy is precise, clear and definite, the adequacy of organisation structure can be tested easily.

Second difficulty results from the fact that symptoms of organisational malfunctions are not always explicit unlike the physical object. Things are to be interpreted on the basis of various qualitative factors, which may become subjective. It is a common human tendency to cover up unpleasant things and organisational situations fall in this category. Therefore, the strategist has to build up his information system in such a way that he is able to monitor organisational adequacy.

Third problem in applying the test of adequacy is that malfunctioning symptoms have multiple causes. Many of external factors may cause malfunctioning in the organisation and not the structure itself. For example if the profit is down because of increased competition and consequence -lower price realization, the correction will be required in strategic posture and the organisation should be analysed in the context of both internal and external factors to pinpoint the exact nature of problem and consequently the remedial action. These problems must be kept in mind -while relating structure to strategy.

Mechanism for Relating Structure to Strategy
The first aspect of structure-strategy fit relates to the type of functions that the organisation structure should facilitate to perform. There are tests, which any good organisation structure should satisfy. First -implement the strategy properly, certain functions must be performed. Therefore, the structure should ensure that all the necessary activities are performed and there is no duplication in the performance of the -activities. Second, an activity's contribution to strategy should determine its rank and placement in the organisational hierarchy. Thus key activities should never be subordinated to non-key activities. Revenue-earning or result-producing activities should never subordinate to support activities. By making success causing for -the major building blocks for the structure, the chances are greatly improved that strategy will be effectively implemented.

The second aspect of structure-strategy fit relates to the adaptive -character of the environmental pressure on the organisation. Organisation has to interact continuously with its environment and this interaction some sort of changes are brought continuously in the organisation. If the change is a minor one and comes within the purview of established programs of action, the change will be absorbed within the system; major or rapid changes throw the organisation out of equilibrium seriously affecting its functioning. New equilibrium is reached by taking new programs. Therefore, the organisation structure should be able-absorb these changes.

In relating structure to strategy, following strategic principles organizing may be helpful. These principles are not strictly in accordance -with traditional principles of organizing. These principles are considered to be specially pertinent for a firm with multiple products and multiple industry-market opportunities. These should also suit the smaller but growing firms in a dynamic volatile environment.

1. To the extent duplication and expense can be avoided, it is highly desirable to relate -significant areas of authority and responsibility to results desired with given markets, industries, or sets of customers. Organisational by market can produce the highest degree of strategic awareness.

2. It is better to delegate authority and decentralize strategic planning and operations for businesses, which are relatively, mature, predictable, and stable. This frees top management for strategic planning in the relatively unknown areas of opportunities.

3. Strategic planning for the unknown areas should be centralized, as this requires close supervision of top management. The critical early choices in unknown fields can pose major unpredictable risks on resource allocations and technological commitments, which are among the most important decision areas for the management.

4. In centralization -decentralization continuum, there should be centralized measurements. This implies after-the-fact measurement and not the control which is affected by the divisional heads.

5. Emphasis should be on result-centered rather than profit-centered decentralization. It is not necessary to effect total profit and loss divisionalisation in order to delegate decision-making authority to lower echelon managers. Decentralization can be confined to those key operating and support areas that have within their make-up tradeoff issues, which a subordinate manager can resolve to affect timely and market knowledgeable strategic decisions. In other words, neither centralization nor decentralization are cut and dried propositions. Many graduations are available to resourceful management, and entrepreneurial type of responsibilities can be assigned with significant leverage for achieving results without handing over complete profit responsibility.

Various forms of organisation structure and their suitability to strategies suggest that no one form is suitable for all situations. Therefore, many companies opt for combination of more than one form. Exhibit the organisation structure (partial at the top level only) of Hindustan Lever Limited, which is essentially a combination of functional and divisional structures. The company has constituted certain standing committees. Besides, ad hoc committees and groups are constituted whenever need arises.
Hindustan Lever Limited is a major fast-moving consumer-goods company. Its products have been grouped into three broad categories: home and personal care, foods and beverages, and industrial and agricultural with a number of products in each group. The organisation structure of the company is as follows:

At the second level, marketing functions have been organized on the basis of territorial divisionalisation with North, South, East and West divisions. In order to support its marketing functions, human resource functions have also been organized on the same basis.

**Structural Change**

If the present organisation structure does not adequately fit the need of chosen strategy in the light of the above strategy-structure fit and strategic principles of organizing, top management should look for reorganization. Many companies have reorganized their structures recently because of the change in their strategies due to the following factors:

1. rapid growth leading to problems of manageable size and communication;
2. excessive diversification of product lines;
3. increasing competition and environmental changes;
4. changes in managerial styles particularly from centralized family decisions to decentralized decision-making;
5. change in organisational climate and managerial commitments; and
6. unsatisfactory work performance because of structural conflicts.

However, before taking reorganization, it is constructive for management to check off the following questions to ensure whether the firm can function efficiently without the reorganization:

1. Has firm clarified its mission and responsibilities to all concerned under the existing structure?
2. Are there significant opportunities for improved direction and motivation in day-to-day operations?
3. Can procedures and practices be improved within the existing structure?
4. Should any key personnel reassignments be made?
5. Having exhausted the above, what, if any, organisational changes should be made?

If the change is required, it should be total package of articulated and efficient structure, effective back-up systems, and motivated people dimensions. Initially, the process reorganization was the responsible of line management, usually the chief executive. It was, therefore, a highly intuitive process largely inspired by management’s desire to solve certain existing problems, make key personnel changes, or take up the fad of the time. However, the trend has channel. Now most of the large organizations have either organisation development department or take the help of external consultants because the emphasis is on planned change. Since the organisation is a complex system of mutually dependent parts, it is logical that organisational change involves an alteration or modification of one or more parts of the system. Thus what is needed is an operational scheme of organisation of parts so that the focus and the direction of the change sought may be clearly identified for any given situation and the extended and interactive effects of a change in anyone part of the system or on the other parts may be anticipated and traced. Thus structural reorganization should be in the context of other interactive subsystems of the organisation, viz. technology, behavioural, technical and procedural, goals and values, and managerial. Therefore, mere restructuring of organisational relationships is not sufficient but an integrated approach is required.

**Notes**