

Organizational Structure In The Context Of The Development Strategy In Polish Production Companies

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Effective implementation of the strategy developed in a company depends on the structural and procedural capacity of the organisation. Change of the strategy implies the necessity of structural transformations; failure to make such transformations may result in disruptions in the company operation. On the other hand, the process of defining a strategy has to be preceded by a diagnosis of the organisation itself, its environment and possible changes to the structure and level of its resources. The combination of organisational forecast, environment forecast and determination of strategic objectives creates a space for the possible, allowable and feasible strategies. The article shows relationships between the strategy and organisational structure of the company based on research conducted in 79 large Polish production companies.

Field of Research: General management, Strategic management, Organizational design

1. Introduction

The relationship between the strategy and organisational structure is the key issue in the organisation and management theory. This issue has been the subject of study of many researchers for a dozen of years. On the basis of carried out research it was concluded that there are close interrelations between the organisational structure and corporate strategy. It was shown that on one hand, the strategy models the company organisational structure and on the other hand solutions implemented within the organisational structure affect the process of strategy development and implementation. This paper focuses on showing mutual relationships between the corporate strategy and organisational structure based on the results of research conducted in 79 large Polish production companies. This paper seeks to identify what type of the organisational structure is appropriate to adopted and realised corporate strategy. It also seeks to identify changes of the organisational structure in the context of the growth strategy in these large Polish companies.

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2. Literature Review

A.D. Chandler was the precursor of the research on the relationships between the strategy and the organisational structure. His landmark study found that changes in an organization's strategy bring about new administrative problems which, in turn, require a new or refashioned structure for the new strategy to be successfully implemented (Chandler, 1962). Thompson and Strickland (1992) comment that the structure follows strategy thesis is undergirded with powerful logic: how organizational activities are structured is a means to an end-not an end in itself. Structure is managerial device for facilitating execution of the organization's strategy and helping to achieve performance targets. An organization structural design is a tool for "harnessing" individual efforts and coordinating the performance of diverse tasks; a good design helps people do things efficiently and effectively. If activities and responsibilities are deliberately organized to link the structure and the strategy, it is easier to coordinate strategic moves across functional areas. Moreover, efforts to execute strategy on a day-to-day basis are less likely to result in frustration, finger-pointing when foul-ups occur, interdepartmental frictions, and inefficiency.

Chandler's thesis can be turned, especially in the conditions of deep and quick changes in an environment. It was confirmed by numerous researches. It turned out that the organizational structure also substantially affects defining the strategy process, and in the consequence "strategy follows structure". Mintzberg (1990) is the main supporter of this view. He noticed that the strategy-structure relationship is characterised by the fact that the strategy is determined mainly by external factors while the structure is determined by internal factors. Premises of this approach were also presented earlier by Ansoff (1979), who noticed that many companies implement new structural solutions preceding changes of the environment and strategy, creating the strategic potential which allows for quick adjustment. On the other hand, Fredrickson noted that the structure determining division of functions and communication channels between organisational units at the same time limits the environment perception, as well as the type of information from the environment and capabilities to process such information. This, in turn, affects the decision-making process of the strategy modelling and finally the strategy itself (Hodge &Anthony 1988).

The research on the strategy-organisational structure relation was continued by Lawrence and Lorsch (1967), Child (1972), Scott (1973), Rumelt (1974), Miles and Snow (1978), Boschken (1990), Drucker (1998) and by many others. Polish researchers include Stabryła (1991), Bielski (1996), Krupski and Przybyła (1996) and other. Relationships between the strategy, organisational structure and environment were researched by Hrebiniak and Joyce (1985), and earlier by Child (1972) and Aldrich (1979). As the result of their research, another two theories were developed: strategic choice and organisational ecology. Nowadays it is also possible to come across in the literature views regarding the twilight of strategy and related uncertainty which is intensified by decomposition of organisational structures (Koźmiński 2005). Both, the environment and the internal organisation of present-day companies

become more and more unpredictable. Thus the situation during strategy development may be substantially different from the situation during strategy implementation which results in additional costs of strategy modifications. Decomposition of organisational structures is related to creation of organisational networks, that is of loosely bound, autonomous units which carry out shared tasks but remain separated. Basic function of such networks is to share knowledge between the units which results in disintegration of monolithic structures, controlled from one centre, in a uniform manner. The strategy and structure interaction in this case indicates that if the strategy is burdened with high uncertainty, organisational solutions should be very flexible and easily adjustable to quick changes (networks have these characteristics). Despite many different views on the strategy-organisational structure relationship, it may be stated that effective implementation of the corporate strategy depends on structural and procedural capability of the organisation. The structure not only affects the strategy - it is also itself affected by the strategy. Change of the strategy implies the necessity of structural transformations; failure to make such transformations may result in disruptions in the company operation.

3. Methodology

The objective of the research was to determine mutual relationships between the corporate strategy and organisational solution. The research was conducted in 2006 on a sample of 79 production companies operating throughout Poland. Applied research method included telephone interview based on a standardised list of questions, supported by mail survey and Web survey. Respondents included representatives of chief managerial staff or persons indicated by these representatives. The studied companies were selected according to the following criteria: production activity, employing over 249 persons within the last 5 years, realisation of the growth strategy reflected in substantial expansiveness (e.g. in capturing new markets, diversification of production and investment activities, etc.). Detailed data concerning the studied companies are presented in Table 1.

The studied companies represented different industries. The greatest number of companies operates in the machine-building industry (13 entities), chemical industry (9 companies), light industry (8 companies), furniture-making industry (7 companies), automotive industry (7 companies) and plastics industry (6 entities). The remaining 29 companies operate in other industries. More than a half of the studied companies (64.9%) operate only in Poland; 18.2% of companies operate on the international market, i.e. in several countries within one continent. 13 studied companies operate globally on several continents. All studied companies were realising the growth strategy; in 60.8% of the companies it was only internal growth (own investments), and in 39.2% both, internal and external growth (cooperation with other companies, e.g. mergers, acquisitions, alliances). Organisational structures of the studied entities were also diversified: functional structure was present in 40.5% of the studied companies, line and staff structure in 22.8%, divisional structure in 10.1%, project structure in 6.3%, matrix structure in 3.8% and process structure in

8.9% of the studied companies. 5.6% of the studied companies operated as organisational network and 2 companies indicated the hybrid structure.

Table 1 Character of the studied companies.

| Description | Number of entities | |
|------------------------------------|-----------------------|--------------|
| | N | % |
| Year of foundation | | |
| ▪ 1838 – 1960 | 33 | 41.7 |
| ▪ 1961 – 1988 | 12 | 15.2 |
| ▪ after 1989 | 34 | 43.1 |
| Total | 79 | 100.0 |
| Legal form of business | | |
| ▪ limited liability company | 41 | 51.9 |
| ▪ joint stock company | 35 | 44.3 |
| ▪ public enterprise | 1 | 1.3 |
| ▪ cooperative | 2 | 2.5 |
| Total | 79 | 100.0 |
| Organizational form | | |
| ▪ one site | 44 | 55.7 |
| ▪ few sites | 17 | 21.5 |
| ▪ holding company | 8 | 10.1 |
| ▪ concern | 6 | 7.6 |
| ▪ other | 4 | 5.0 |
| Total | 79 | 100.0 |
| Total number of employees in 2006. | | |
| ▪ 250 – 300 | 15 | 20.3 |
| ▪ 301- 500 | 29 | 39.2 |
| ▪ 501- 1000 | 20 | 27.0 |
| ▪ 1001 - 1500 | 5 | 6.8 |
| ▪ 1501 - 2000 | 3 | 4.1 |
| ▪ above 2000 | 2 | 2.7 |
| Total | 74¹ | 100.0 |

N – number of companies

% - the percentage of the group

Source: Own research

According to the majority of respondents (75.9%), the strategy has a great and very great influence on changes in the organisational structure. 11 companies stated that this influence is very little, 4 respondents stated that there is no such influence and 5 persons had no opinion on this subject. Similarly the majority of survey participants stated that the organisational structure affects the realised strategy moderately (48.1%) and very strongly (32.9%). Only 7.6% of the studied companies assessed this influence as very little. The same number of companies (6 entities) stated that there is no such influence.

4. Findings

As the result of the analysis efforts were made to find out what types of the organisational structure were present in the studied companies in the context of the adopted and realised growth strategy at the level of the company (corporation). Another issue was to check whether this structure was subject

¹ In 5 studied companies the respondents failed to provide exact employment level data.

to a radical change as the result of implemented strategy or maybe structural conditions were so powerful that they affected made strategic decisions. Detailed data concerning this issue are presented in Tables 2-3.

Table 2 The type of the organizational structure and the direction of growth in the studied companies

| Type of the organizational structure | Total | | Direction of the growth | | | | | | | |
|--|-----------|------------|--|------------|-----------|------------|-----------------------|------------|-----------|------------|
| | | | Horizontal expansion–single business concentration | | | | Diversification | | | |
| | Internal | | Internal and external | | Internal | | Internal and external | | | |
| | N | % | N | % | N | % | N | % | | |
| Functional structure | 32 | 40.5 | 14 | 58.3 | 3 | 20.0 | 9 | 37.4 | 6 | 37.5 |
| Line and staff structure | 18 | 22.8 | 5 | 20.8 | 3 | 20.0 | 7 | 29.2 | 3 | 18.7 |
| Divisional structure | 8 | 10.1 | 1 | 4.2 | 3 | 20.0 | 2 | 8.3 | 2 | 12.5 |
| Project/ team based structure | 5 | 6.3 | 1 | 4.2 | 1 | 6.7 | 2 | 8.3 | 1 | 6.3 |
| Matrix structure | 3 | 3.8 | 1 | 4.2 | 1 | 6.7 | 1 | 4.2 | 0 | 0.0 |
| Process structure | 7 | 8.8 | 2 | 8.3 | 1 | 6.7 | 1 | 4.2 | 3 | 18.7 |
| Networked structure/ boundaryless organization | 4 | 5.2 | 0 | 0.0 | 2 | 13.2 | 1 | 4.2 | 1 | 6.3 |
| Others | 2 | 2.5 | 0 | 0.0 | 1 | 6.7 | 1 | 4.2 | 0 | 0.0 |
| Total | 79 | 100 | 24 | 100 | 15 | 100 | 24 | 100 | 16 | 100 |

N – number of companies

% - the percentage of the group

Source: Own research

Adoption of a specific strategy at the level of a head office requires appropriate modelling of the organisational structure, while crucial decisions will concern the level of management decentralisation. It is important to standardise organisational principles by ensuring appropriate flow of information between domains, appropriate (and uniform in particular strategic business units) level of formalisation, as well as the level of specialisation suitable to the unit specificity. In the case of each direction of growth, there were different structures in the studied companies:

- functional structure, based on manager specialisation in realisation of particular functions, in which subordinates are subordinate not only to their work superior but also to many functional superiors who give instructions regarding the way particular functions are to be executed, was the most commonly used organisational solution regardless of the type of adopted strategy. However, it predominated at the internal method growth at both, horizontal expansion and diversification;
- only a few companies (7) had a more modern type of the organisational structure, namely the process structure. It is usually created as the result of implementation of reengineering, the role of vertical functional

divisions is minimised and units are grouped around processes which close particular, logical sequence of tasks which ends with a certain effect. Tasks are executed by a team under joint management of the so-called process owner. It is a flat structure – elimination of intermediate levels. Direction of growth was not significant here, however, it should be noted that this solution was selected by companies whose competitive advantage was based simultaneously on many abilities and resources (dispersed advantage);

- divisional structure at both, horizontal expansion (20% of the companies) and diversification (12.5% of the studied entities) was the most common in companies which decided to cooperate with another companies and operated in the form of holding companies or concerns;
- very few, only 3 from the 79 studied companies, had the matrix structure based on two-dimensional grouping: columns correspond to recurring functions and lines denote non-standard, periodically changing tasks. It may be due to the possibility of conflicts and contradictory orders between functional and task managers.

Change of the strategy implies the necessity of structural transformations; failure to make such transformations may result in disruptions in the company operation. Therefore, respondents were asked whether the type of organisational structure was changed as the result of the newly adopted strategy. Results of their answers are presented in Table 3.

Table 3 The change of the organizational structure and the direction of the growth in studied enterprises

| Description | Total | | Direction of growth | | | | | | | |
|---|-----------|------------|---|------------|--------------------------|------------|-----------------|------------|--------------------------|------------|
| | | | Horizontal expansion– single business concentration | | | | Diversification | | | |
| | | | Internal | | Internal and external | | Internal | | Internal and external | |
| N | % | N | % | N | % | N | % | N | % | |
| Radical change of the organizational structure due to a new strategy | 13 | 17.6 | 2 | 9.1 | 7 | 46.7 | 2 | 9.1 | 2 | 13.3 |
| Small changes of the organizational structure for its improvement, there was no need to make bigger changes | 60 | 81.1 | 20 | 90.9 | 8 | 53.3 | 19 | 86.4 | 13 | 86.7 |
| Efforts to keep present organizational structure what affected strategic decisions | 1 | 1.3 | 0 | 0.0 | 0 | 0.0 | 1 | 4.5 | 0 | 0.0 |
| Total | 74 | 100 | 22 | 100 | 15 | 100 | 22 | 100 | 15 | 100 |

N – number of companies

% - the percentage of the group

Source: Own research

Only in 13 from the 79 studied companies the organisational structure was radically changed due to the adopted strategy. Functional structure was the most frequently (7 companies) changed into more modern and suitable to growth organisational forms, such as the process structure, matrix structure and project structure. In 4 companies, the divisional structure was created and

in two companies present hierarchical (line) structures were transformed into the line and staff structures. Companies in which organisational solution changed radically usually realised specialisation strategies (9 entities), applying mainly the external growth method (mergers - 3 companies, acquisitions - 2 companies, strategic alliances – 4 companies). In the majority of the studied companies (81%) only small changes were made consisting in liquidation or creation of particular organisational units or work positions and combining present organisational units into new, larger units. Other small changes made in the studied companies included the following: reduction of the number of managerial and administrative positions, increasing the independence of middle and low-level managers, introduction of internal economic calculation and creation of profit and cost centres and other changes.

Only in one company efforts were made to keep present organisational structure, particularly as far as power division was concerned. As indicated by the respondent, greater centralisation was present in this company. It was the company with the line and staff structure operating on the domestic market and realising the specialisation strategy based on own resources. Corporate organisational structure may be described using certain properties (dimensions). They usually include the following: the way tasks are divided and grouped, division of power and authorisations, coordination and formalisation. These properties limit adaptation abilities of the company and thus not all strategic moves are feasible. It means that the company has much better chances of success when changes resulting from the strategy are accompanied by appropriate structural changes [concerning the degree of centralisation, formalisation, specialisation, span of control, information circulation, etc. (Carr, Hard, Trahant 1995)]. If no appropriate structural changes are made, the organisational structure may render a developed strategy impossible to implement. Changes in the properties of the organisational structure of the studied companies as the result of implementation of the adopted development strategy are presented in Table 4.

The way tasks are divided and grouped was radically changed in the 77 studied companies, including 12 companies implementing the specialisation strategy and 15 companies implementing diversification strategy. As the result of change, tasks were grouped according to several criteria simultaneously, usually by function, product and technology. The process criterion was adopted in 2 companies. Earlier tasks were divided and grouped according to one criterion, mainly the functional one. The division of power and authorisations was radically changed in 32.9% of the studied companies, more frequently in companies focusing on particular scope of operation than in companies implementing diversification. In this case the change included mainly increasing the degree of decentralisation (19 companies), although in 5 companies power centralisation was increased. These were the companies which were implementing horizontal expansion, with functional and line and staff organisational structures. Coordination was changed the least frequently (only in 22.8% of the studied companies). Usually vertical coordination (hierarchy) was changed into horizontal coordination (organization of task and

project teams) and coordinators were introduced. In 20 from the 79 analysed companies the degree of formalisation was substantially changed, more frequently in companies implementing the specialisation strategy than in companies implementing diversification. However, it should be noted that according to the majority of respondents (15 companies) the degree of formalisation was increased (more documents, rules, etc.). Particular properties of the organisational structure were radically changed in all companies in which the type of organisational solution was changed (Table 3) and only in a few companies in which small changes in the organisational structure were made.

Table 4 Changes in the properties (dimensions) of the organisational structure of the studied companies as the result of strategy implementation.²

| Structural dimensions | Radical change as the result of strategy implementation | | Small changes to improve organizational structure | | Tendency to keep - the influence on strategic decisions | | Total N |
|---|---|------|---|------|---|-----|------------|
| | N* | % | N | % | N | % | |
| Total (all companies) 79=100% | | | | | | | |
| the way tasks are divided and grouped | 27 | 34.2 | 46 | 58.2 | 4 | 5.1 | 77 |
| division of power | 26 | 32.9 | 51 | 64.6 | 2 | 2.5 | 79 |
| coordination | 18 | 22.8 | 52 | 65.8 | 0 | 0.0 | 70 |
| formalisation | 20 | 25.3 | 50 | 63.3 | 1 | 1.3 | 71 |
| Horizontal expansion (single business concentration) 39=100% | | | | | | | |
| the way tasks are divided and grouped | 12 | 30.8 | 26 | 66.7 | 1 | 2.6 | 39 |
| power's division | 17 | 43.6 | 21 | 53.8 | 1 | 2.6 | 39 |
| coordination | 12 | 30.8 | 22 | 56.4 | 0 | 0.0 | 34 |
| formalization | 13 | 33.3 | 21 | 53.8 | 1 | 2.6 | 35 |
| Diversification 40=100% | | | | | | | |
| the way tasks are divided and grouped | 15 | 37.5 | 20 | 50.0 | 3 | 7.5 | 38 |
| power's division | 9 | 22.5 | 30 | 75.0 | 1 | 2.5 | 40 |
| coordination | 6 | 15.0 | 30 | 75.0 | 0 | 0.0 | 36 |
| formalization | 7 | 17.5 | 29 | 72.5 | 0 | 0.0 | 36 |

N – number of companies

% - the percentage of the group

Source: Own research

Small changes to improve the organisational structure as the factor of strategy implementation were characteristic to the majority of studied companies regardless of the direction of growth. Only in a few companies efforts were made to keep the way tasks were divided and grouped, division of power and the degree of formalisation, which to some extent affected strategic decisions.

² Not all respondents answered questions regarding changes in structural dimensions. That is why the number of companies in individual groups does not sum up to the total number of that group.

5. Conclusion

Matching structure to strategy requires making strategy –critical activities and organizational units the main building blocks in the organisation structure. Internal organisation of each company is somewhat idiosyncratic; the result of many organisational decisions and historical circumstances. Moreover, every strategy is grounded in its own set of key success factors and critical tasks inherent in the company strategy. Inappropriate organisational structure may thwart efforts related to development activities. In the majority of the studied large Polish production companies respondents are aware of and appreciate the role of the organisational structure as the factor of strategy implementation. However, as the study results show, in the analysed Polish companies, effective implementation of the strategy is not always related to changes of particular dimensions of organisational solution. At the same time it may be noted that organisational structures of the studied companies are largely traditional. Most of them are functional organisations and only in 16 companies there are newer forms of organisation, such as project, process or networked structures. Therefore, it seems that despite of the awareness of the necessity to make structural changes due to adoption of new strategies, Polish managers do not make appropriate modifications. Organisational structures are not highly flexible, whereas according to many researchers flexibility of the organisational structure, reflected in its modular, cooperative and organic nature, is the attribute of companies of the future.

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