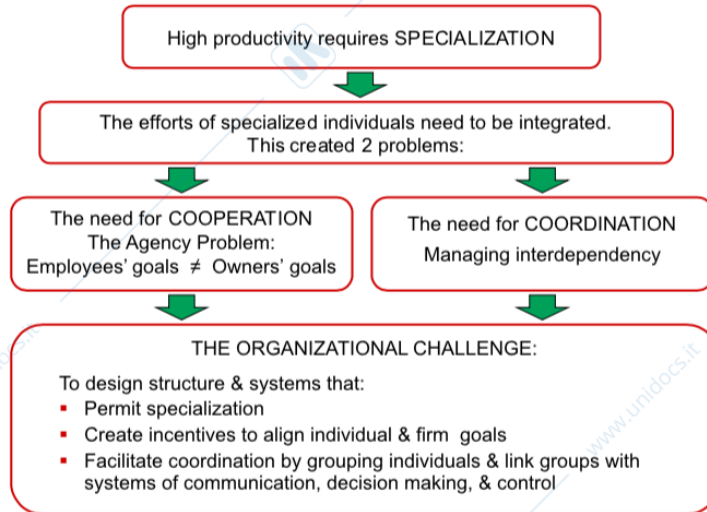


ORGANIZATIONAL STRUCTURE

We need to have the right organization helping to fit in resources with the business we have

Why we need it → Final aim of organization: we have to combine human resources, have people working together



Specialization: gives a lot of benefits

BUT

Having small tasks, create 2 problems:

1-people need to cooperate

2-people need to be coordinated

- 1- We need to find mechanisms to control people → every single employee must act in the interest of the company (agency problem)
- 2- We need to coordinate → if we split activities in groups, different people are working together (interdependency among all the elements of the organization)

2 different mechanisms:

(depending on the industry)

- Mechanistic organization:

Very specialized way of working; very small tasks, rapid and highly specialized

Hierarchical structure: you know who is your boss, rules and directives imposed from the top

Communication: mainly vertical

If you are an employee: you are a small grind in a big mechanism

Good approach if you have to run mass production for stable markets, with low technological uncertainty

- Organic organization:

Organization: dynamic, flexible, fast in changes

Slow number of hierarchy levels

We find an agreement with mutual adjustment

Communication: vertical and horizontal

Long term goals are fixed → and then you have to find yourself the way to reach it

Highly related to innovativeness, good approach if the market is not stable, dynamic (technological industries)

Designing the hierarchy:

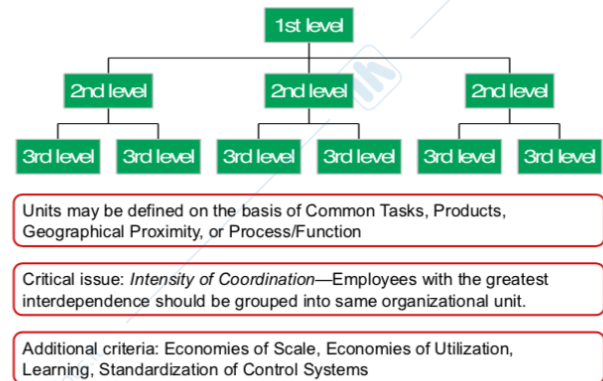
=What is most important

The more we have a subgroup in the high part of the graph, the more we believe that we need to coordinate everything down

If the 1st level is

This means that starting from the structure we have messages for the strategy

Change in strategy= restructuring, a change in the structure → you change the priority of different kind of coordination



BIG GROUP: We have a corporate center, that is shares all the businesses

His role: to demonstrate that its businesses perform better in aggregate than they would as a series of individual, stand-alone entities.

→ how the parent can create value?

Nature of the parent: we have 4 types of influences:

1) Stand-alone influence

-We have a parent company that one by one is working with the different BUs/divisions/businesses giving a specific influence to each one

-we have businesses independent one from the other

-How to do that: not being involved in making decisions, but providing resources to each business + setting goals and targets;

- corporate center: financial based; usually small number of people, experts of financial issues, able to analyze data, if an investment is good or not, independently from the nature of the industry

→ Strategy behind it:

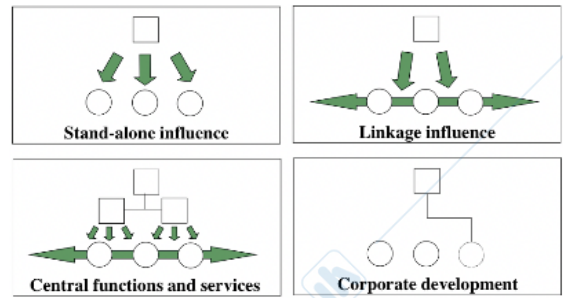
Financial logic; business portfolio strategy

2) Linkage influence

-We work with single business units trying to have relationships among businesses, trying to exploit the linkages, the connections between them → we try to share what we saw is a best practice in the business A to the business B → we try to have the division A work with the B to develop a new product, sharing experiences, know-how

-If no one from the corporate center do that, these collaborations won't happen (you force people working together, otherwise they want to keep these resources in your team, they want to keep the valuable colleagues)

→ Strategy behind it:
Synergic logic; transfer of resources



3) Central functions and services

- Very big companies; very large corporate centers
- Parent runs directly specific functions
- We are trying to have different businesses working together + we have centralized some services → so we offer directly to each single business a service as a group
- Ex: We have a purchasing department and it's purchasing everything for the group
- Centralizing a function: we can exploit the economies of scale

→ Strategy behind it:
synergic logic; sharing of activities

4) Corporate development

- We are largely involved in the decision making, trying to develop every single business
- The corporate center: experts, with very technical, industry specific competences

→ Strategy behind it:
Financial logic; restructuring

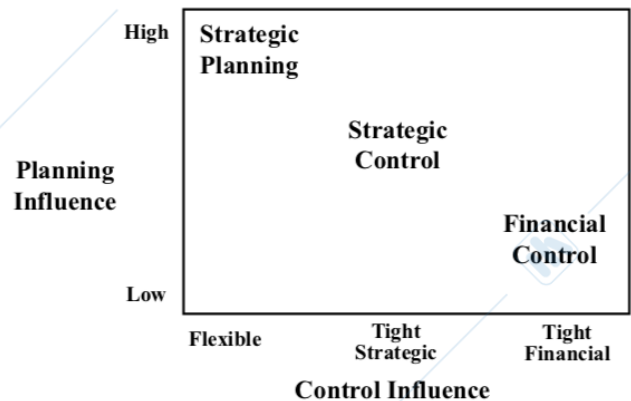
We can control on the basis of 3 different approaches:

1) Financial control:

- We don't care about the decisions, what you'll do, but the results, what you'll achieve
- each BU is responsible for planning and doesn't need parental approval

2) Strategic control:

- Parents decentralize planning to the business(The BU will set the plans for the future) but retain a role in checking and assessing what is proposed by the businesses (giving feedbacks);
- we are not involved in the development of plans but we'll discuss about it, and we'll set results



- 3) Strategic planning: the corporate center has industry specific competences ; we want to take part of the process of development of plans and decisions, we control you on how you behave more than the results that you have; steps that you are making: must be coherent with the other steps of the company

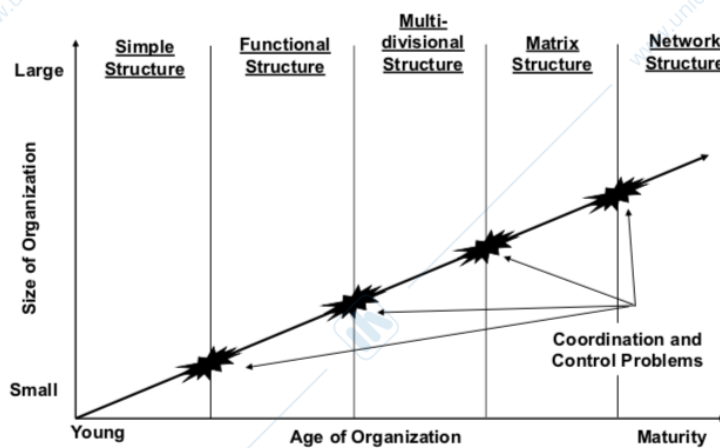
Stand-alone influence → linkage influence → central functions and services → corporate development

Financial control → Strategic control → strategic planning

Approaches: must be coherent with the type of influence that we have

And

Must be reflected in the **organizational design**



companies: start from simple structures

the complexity increases

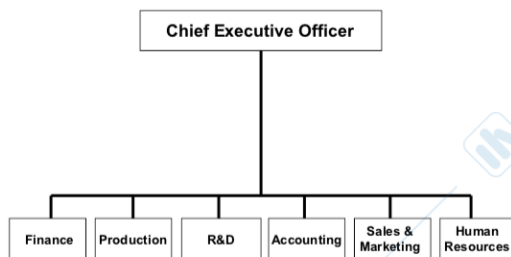
when the company has coordination or control problems: they change the structure

Functional structure:

Functions: units that run specific types of activities;

The more the products/activities, the more the functions hierarchically dependent on the CEO

The CEO is discussing with every single director every day → and each single director has to manage the tasks of employees that are under his section

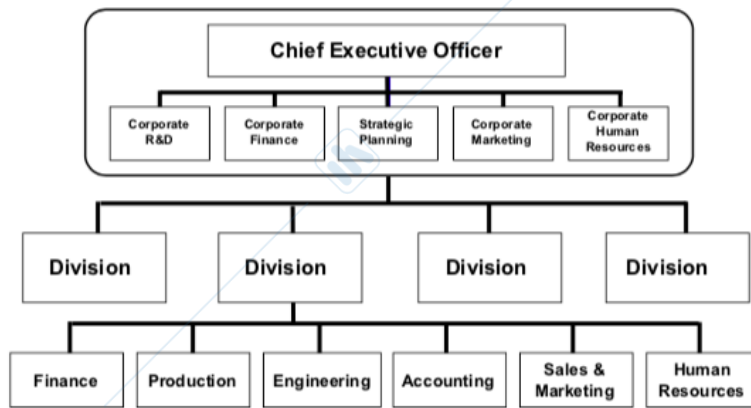


Multidivisional structure:

CEO: is managing directly relationships with functions that we have in staff to the CEO

→ there are activities shared among all the businesses of the company (central functions)

Divisions: activities that need to be strongly coordinated (ex all the activities related to a geographical area, or a specific product, business, market segment....)



The geographical variable: is important
Corporate-level international strategies

How we want to manage activities among countries? We can have different approaches (according to our industry)

→ multi-domestic strategy:

-the preferences of the consumers are different from country to country, you have different kind of needs

-I have to adapt the product to the country: every country is treated different, independent (tailored products),

-We have different teams in different countries, developing the product in that country → strategy and operating decisions are decentralized to strategic business units in each country

-Ex: food industry

→ global strategy:

the adaptation for every country is irrelevant;

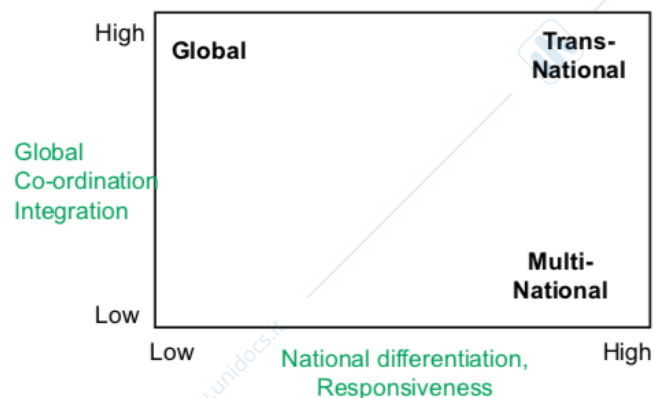
we can treat every country the same, product= standardized, it fits all the markets

strategy decisions= centralized in the home office → single units: highly depend on HQ emphasizes economies of scale

→ transnational strategy:

-followed by the largest corporations; suitable only for them: you need to have enough customers to have the size to have a single center in every single country for the category of products you want to develop

-I try to be as customized as possible but with the advantages of being multinationals (economies);



-I have specialized centers (hub of competences) in specific countries developing and designing specific products, in order to sell them for all the world

+

-I have hubs in every country → every hub is accountable for the development of all the products that we have for the world and providing info about that country to the specialized center;

-The specialized centers develop products thanks to the feedbacks and the info from the hubs in every single country

ex

GENERAL MOTORS 1997

they have divisions based on mainly different geographical areas but mixed with different segments of cars

They don't have specific units for every single class of vehicle

They were developing cars mainly for north America, every single business unit is working for it
The international operations must select vehicles suitable for the other countries, but they can't develop them; if one vehicle will not work in Europe, they just will not sell it (no adaptation, just distribution)

MOBIL CORPORATION 1997

Structure: based on different geographical areas

+ 3 main units: shipping, new exploration, technology;

They are trying to coordinate activities area by area (different regulations for each single country about oil)

we are looking for the best availability of oil worldwide while we are developing oil in every single area

ROYAL DUTCH/SHELL GROUP 1994

Simultaneously coordination among sectors, regions and functions

Huge effort of coordination but they want to exploit the synergies

3 Control systems:

Must be coherent with the way in which you want to create value

2 formal/main way of control → related with the 2 logics of value creation that we can have behind

→Control on results

-We set results (mainly financial ones) and we control

-When we have a financial approach → managers will set financial target and distribute resources to reach those targets

-Effective if the market is stable

→Control on behavior

-We are involved in decisions, in the process of development of the strategies

-I check if the behavior are in line with my expectation, with the overall strategies;

-CEO: is assumed to have the knowledge, the skills, the expertise to discuss about decisions and to judge managers' behaviors (industry-based companies)

- used when businesses are dependent the one with the other

-The market is unstable, I cannot forecast result;

Note: it doesn't mean that I don't care about results, I focus more on behavior

→Control on clans

-We have a sort of relationship among managers in the company that we don't need a formal control system, but there is a "informal" control system that align the behavior of managers to the company's expectations=

-We have an informal network: some members want to satisfy other members of the network, they want to have positive judgements, consent from your peers

-Very effective in: family business but also companies with a strong culture; but middle-size companies

-It solves the agency problem

Control systems ≠ Cohesion systems:

→systems to reduce agency problems

-If we enlarge the group, we can have an advantage, synergies; but we must find a way to have businesses working together, we need to force/suggest it

-We have to do one of the 2 things (or both)

1- Transfer of resources: moving resources from one business to the other;

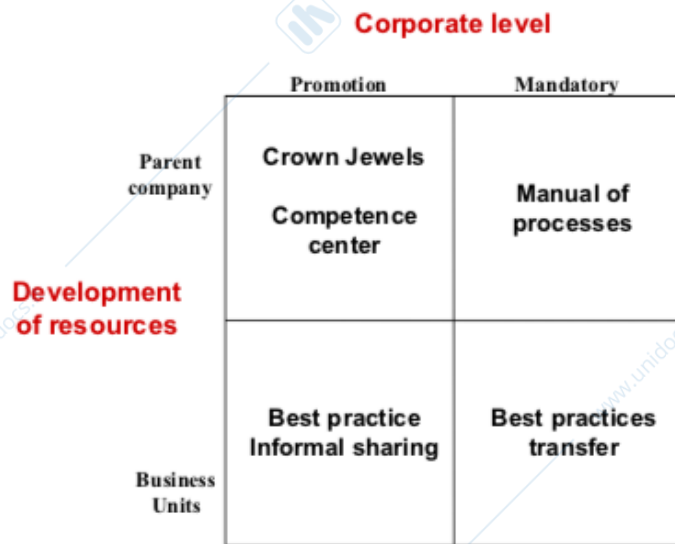
2- Activity coordination

-In both: we need to activate mechanisms, systems →it will not happen automatically! Managers tend to focus just in their own business

→ some activities need to be promoted by parent company and other are mandatory, so must be developed by parent company and BUs

RESOURCE TRANSFER

Mechanisms to have cohesion among resource transfer:
(companies: should focus in one of them)



In our group resources are developed:

- at a corporate level → parent company
- at a business level → business unit

What is the role of the parent company in transfer of resources:

- we want to force the business units → the transfer of resources is mandatory
- we want to facilitate, suggest it → the transfer of resources is promoted

→ Manual of processes:

We have a manual of procedures that BU must adopt to use the resources;

→ Crown Jewels: we have something that is highly valuable that we don't have to push business units to do that, they'll do it by themselves

Or we can have

→ Competence center: the managers of the business units know that you have strong skills in your corporate center; it's not mandatory to discuss with the corporate center but they know that you can give great advices

Problem: we have resources in a specific BU and we have to find a way to transfer it

→ Best practices transfer:

if we identify a best practice in a BU we (the CEO, the corporate group) force other parts to adapt this practice

→ Best practice informal sharing:

We promote to adapt the best practice, we try to let all the managers to know what is happening in other business units;

ex job rotation: you work for one unit today, and after 6 months in another ecc.. this allows the company to force the informal sharing,

there are not only 4 mechanisms, we can have different levels of coordination:
starting from the highest level of formalization=

- > single activities sharing → one activity is purchased by the parent company to every single business unit, centralized
- > centralized decision process → corporate center
- > definition of expected behaviors → control on behavior, we have manuals that explain how to behave
- > responsibility allocations → we can split responsibility on different companies, levels
- > internal consultancy → not mandatory, but if you need some info it's available for you
- > flow of information coordination → let people aware about what other people are doing, suggestions
- > business unit consensus → task forces= groups formed by people that need to work together for a specific task
- > bi-directional flow of information → sharing of info among BU, personal informal networks

(Mechanisms: different tools) → through which assuring coordination of activities made by BU