

**ORGANIZATIONAL DESIGN
AND BEHAVIOR
(87139)**

**Strategy in a
global environment**

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**Office hours
Thursday, 1-2 pm**

PART I
Essentials of strategy

The place of strategy in OD

- most OD interventions and textbooks take a 'strategy first' approach i.e. top managerial actors decide the strategy > undertake changes in the organizational design to implement the desired strategy;
- not always top managerial actors have the necessary leeway to undertake those changes;
- there are internal and external constraints that limit strategy choices and have to be taken into account in strategic decision making...

An alternative view:

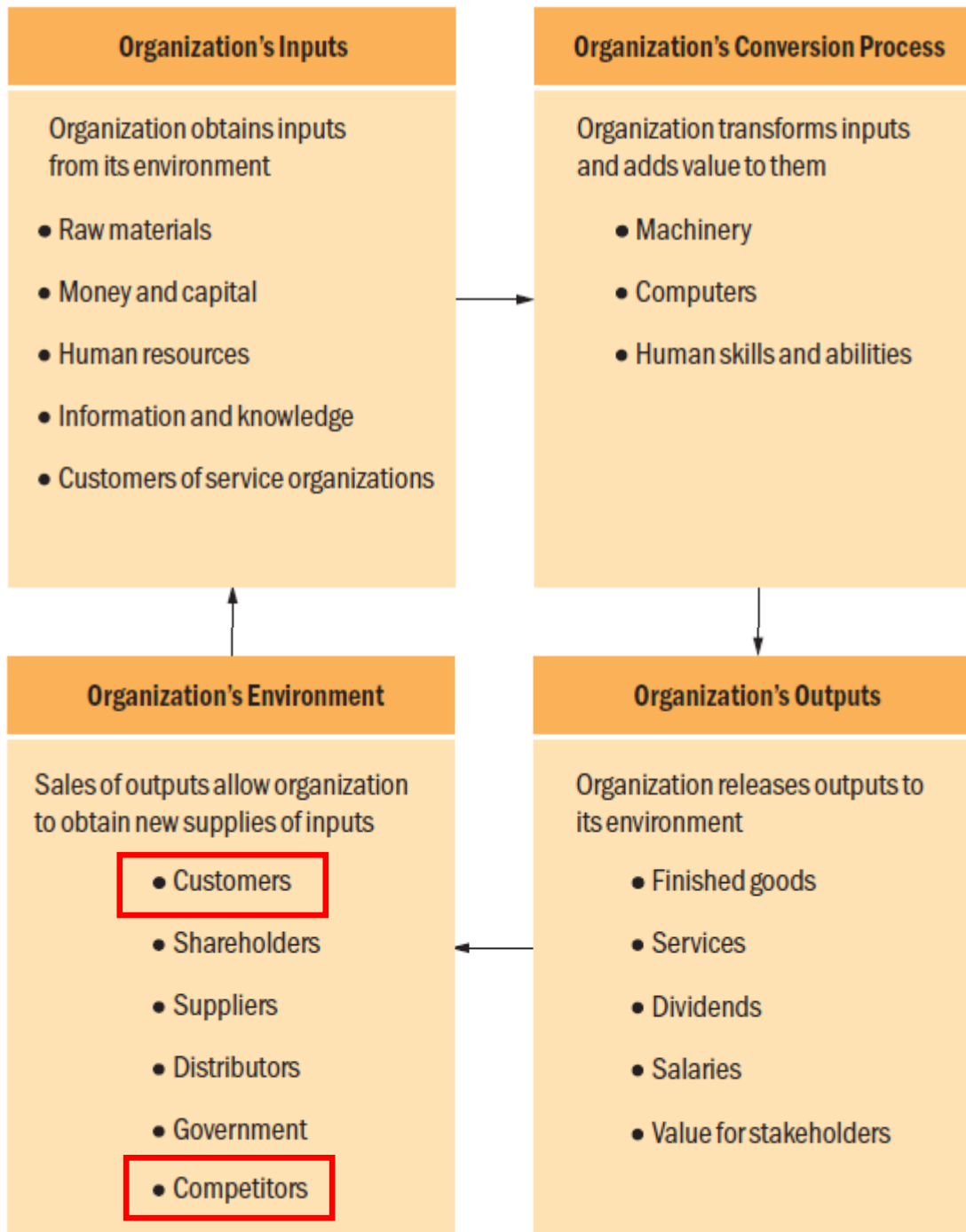
- strategy can be seen as one of the main elements of organizational design, along to other ones (e.g. structure and culture);
- its centrality needs to be evaluated in relation the other elements of OD, and to the natural, social and institutional features of the environment

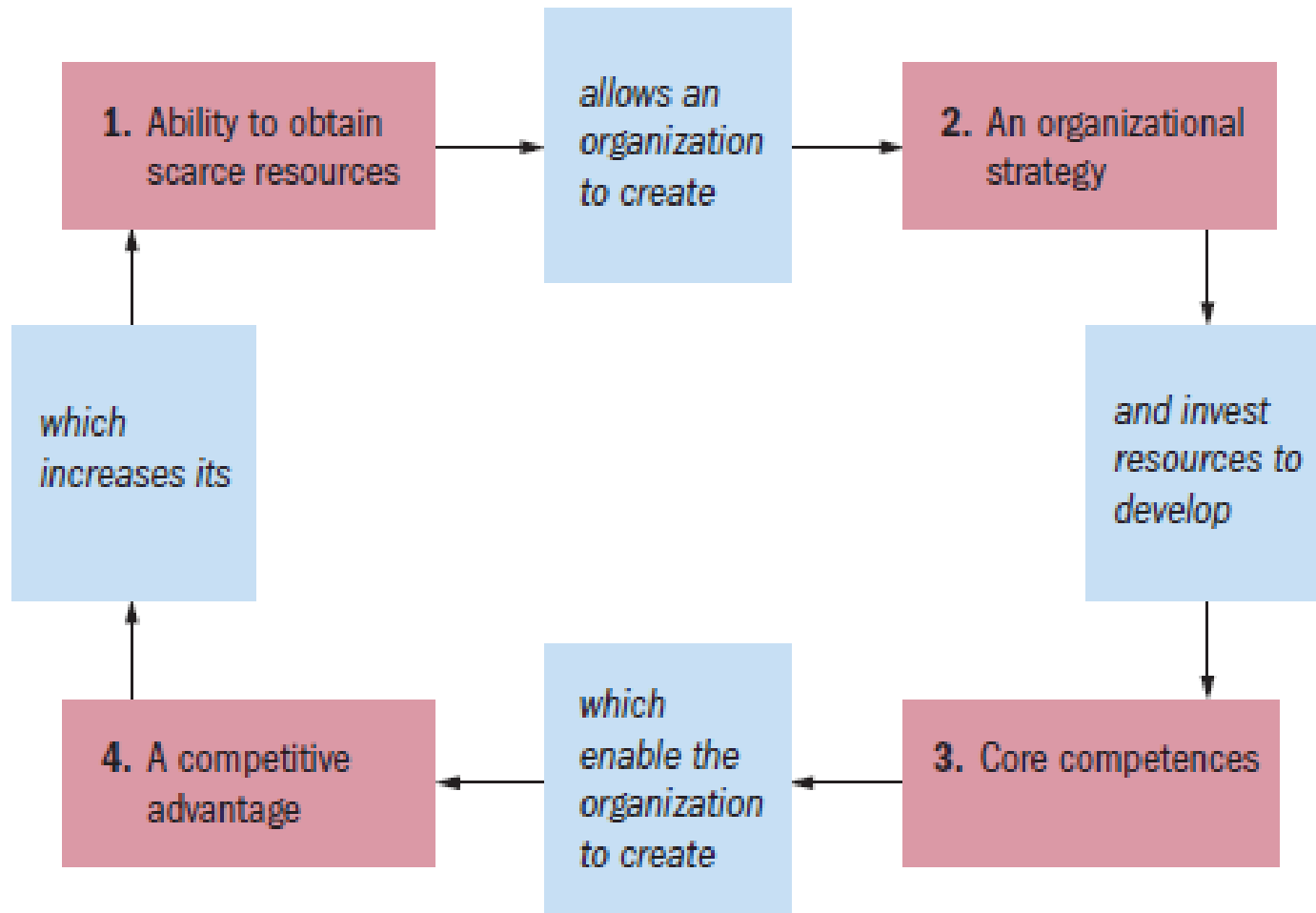
Strategy

an organization's strategy is a specific pattern of **decisions** and **actions** that **managers** take to use its **key capabilities** to achieve a competitive advantage and **outperform competitors**



How strategy fits in the value-creation cycle?





The value creation cycle from a competitive point of view

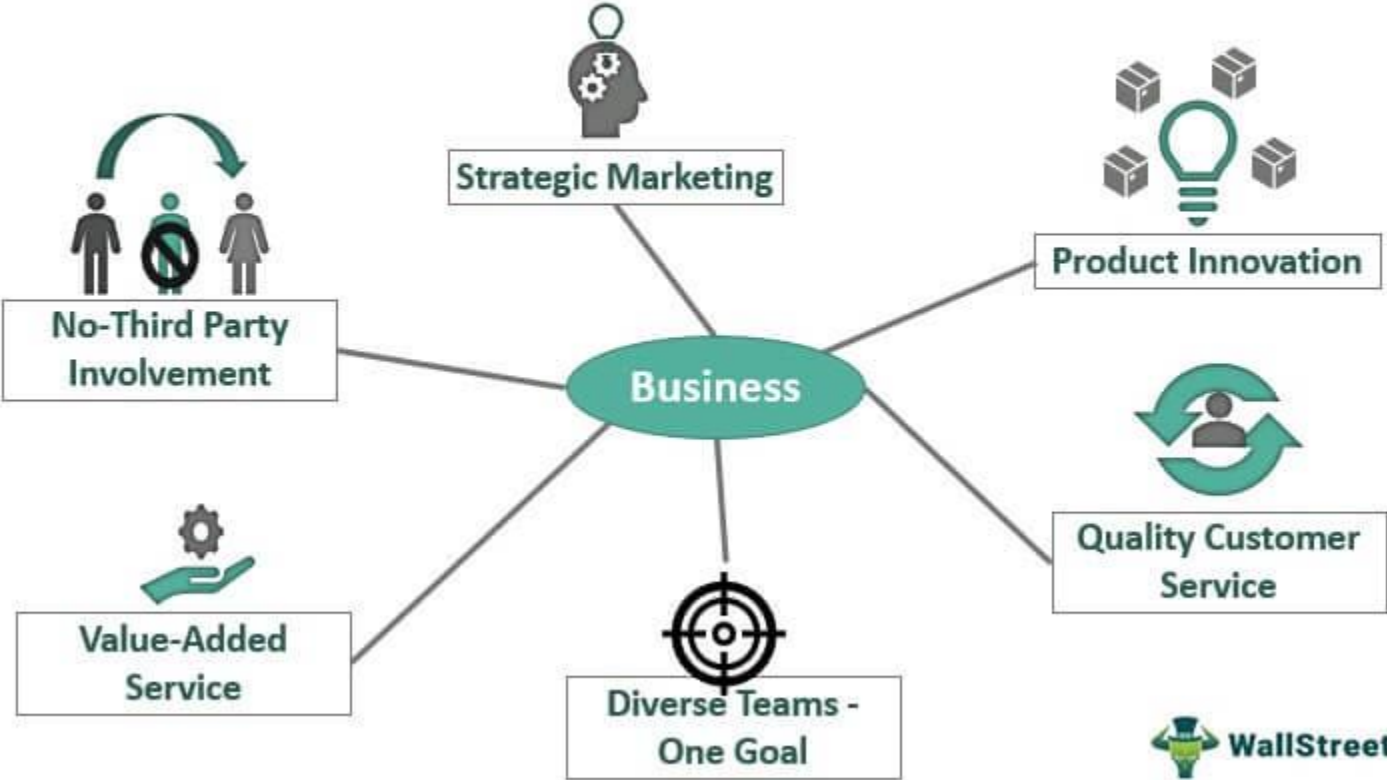
Key capabilities

A set of differentiated skills, complementary assets and routines that provide the basis for an organization's competitive advantage.

They respond to the question: what is that your organization is really good at, that provide it an advantage with respect to competitors?



Examples of Core Competencies



How to identify the key capabilities of an organization?

- Key capabilities are not evident by looking at a company as a whole > need to **break down** your company **strategy** in its constitutive elements and identify its **enablers!**

- Do not identify too many key capabilities: a list of **3-5 will definitely suffice!**

It is not realistic to think that your organization is very good at doing everything...

The objectives rule:

If you give yourself 1-3 objectives you will probably succeed in all/most of them

If you give yourself 4-10 objectives you will probably succeed in two of them

If you give yourself more than 10 objectives, it is likely you will succeed in none of them!

KEEP STRATEGIC FOCUS!

- This is essential to understand which areas you will have to **prioritize** for **lowering costs** or enhancing competitive **differentiation**.

Strategy + key capabilities = competitive advantage



At a certain point McDonald's decided to use its key capabilities in the production of traditional fast food such as burgers and fries to produce breakfasts...

breakfasts that wasn't there!

PART II

Strategy types

The four levels of strategy

- functional;
- business;
- corporate;
- global.

Functional level strategy

a plan of action to strengthen an organization's functional competences and resource

e.g. 3M and HP invest heavily to improve their skills in R&D and product design,

whereas P&G and Coca-Cola invest heavily to devise innovative approaches to marketing...

The logo for 3M, consisting of the letters '3M' in a bold, red, sans-serif font.

Business level strategy

a plan to use and combine an organization's core competences to position it so it has a competitive advantage in a certain domain or segment of its industry

e.g. Mercedes-Benz leverage its skills to position itself in the luxury segment of the car market, where it competes with Lexus and BMW



How the company should compete in one business?

Corporate level strategy

is a plan to use and develop core competences so the organization not only can protect and enlarge its existing domain but can also expand into new domains.

e.g. Honda took its strengths in engine production developed first in its motorbike and car divisions and then applied them to produce engines for jet skis, pressure washers, and lawn mowers



In which business(es) the company should compete

Global strategy

it involves choosing the best strategy to expand into overseas markets to obtain scarce resources, develop core competences and enter new markets

e.g. an Italian medium-sized metalworking firm buys a small Mexican company in the same industry to transfer to it technical skills as well as to gain access to the NA market of car manufacturers.





CASE 1

Samsung's success is based on many strategies

- functional
- business
- corporate
- global

1) Functional level strategy

To gain a competitive advantage, an organization must be able to perform functional activities:

- (1) at a **lower cost** than that of its rivals so it can charge lower prices for its good and services;
- (2) in a better and more qualified way, so that it can **differentiate its products and services** from those of its rivals, by giving them **unique qualities** that customers desire, so it can charge higher or premium prices.

HRM functional strategy

Low-cost strategies

Reduction of turnover and absenteeism

Downsizings, relocations

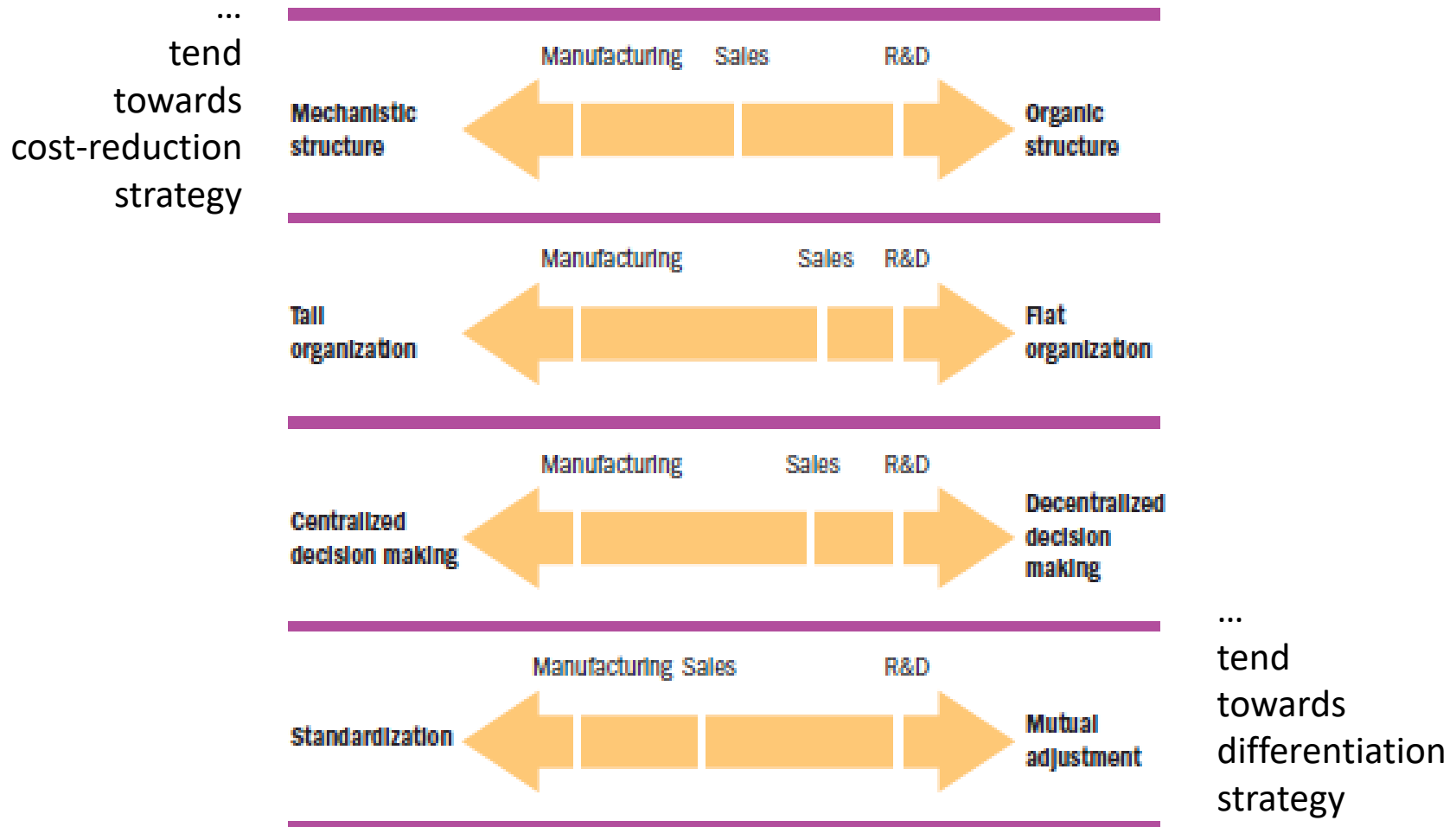
Differentiation strategies

Hiring of high skilled personnel, talents

Development of innovative training programs



Figure 8.3 Structural Characteristics Associated with the Development of Core Competences in Production, Sales, and Research and Development



2) Business level strategy

A business level strategy must:

- select the domain the organization will compete in;
- position the organization so it can use its resources and abilities to protect and enlarge its domain.

Two (main) subtypes of business level strategy:

- 1) cost-reduction
- 2) differentiation

- 3) focus strategy

Business level strategy examples

VS

DECATHLON

patagonia[®]

 **Quechua**



low-cost mountain sportswear



differentiated mountain sportswear

Business level strategy – example 2



Thanks to its long history and the way it organizes its core competences, McDonald's has developed a unique brand-name reputation that **differentiate** it from competitors, while it is able to produce fast food at a **low cost**.

Focus strategy

When differentiation is pushed to the extreme, you have highly recognizable firm/brands because of their products that are highly differentiated from those of the competitors.

An organization specializes in one segment of a market and focusing all of the organization's resources on that segment.

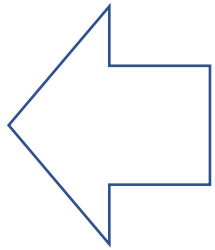


chicken segment of the fast food industry

only produces luxury sport cars



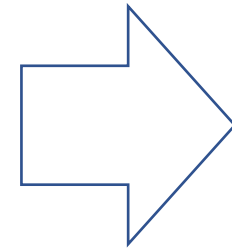
Business level strategy, structure and culture



Matrix structure

divisional structure

functional structure



Goal:
to innovate on
products and
services quickly

>> close
collaboration
between:
R&D
product
development
marketing
manufacturing

Differentiation Strategy
Complex structure
Decentralized decision making
High differentiation
High integration
Organic structure

Low-Cost Strategy
Simple structure
Centralized decision making
Low differentiation
Low integration
Mechanistic structure

Goal:
to reduce costs

>> central
functions are:

Manufacturing,
materials and
supply chain

values of innovation, service uniqueness, excellence...

values of efficiency, frugality...

3) Corporate level strategy

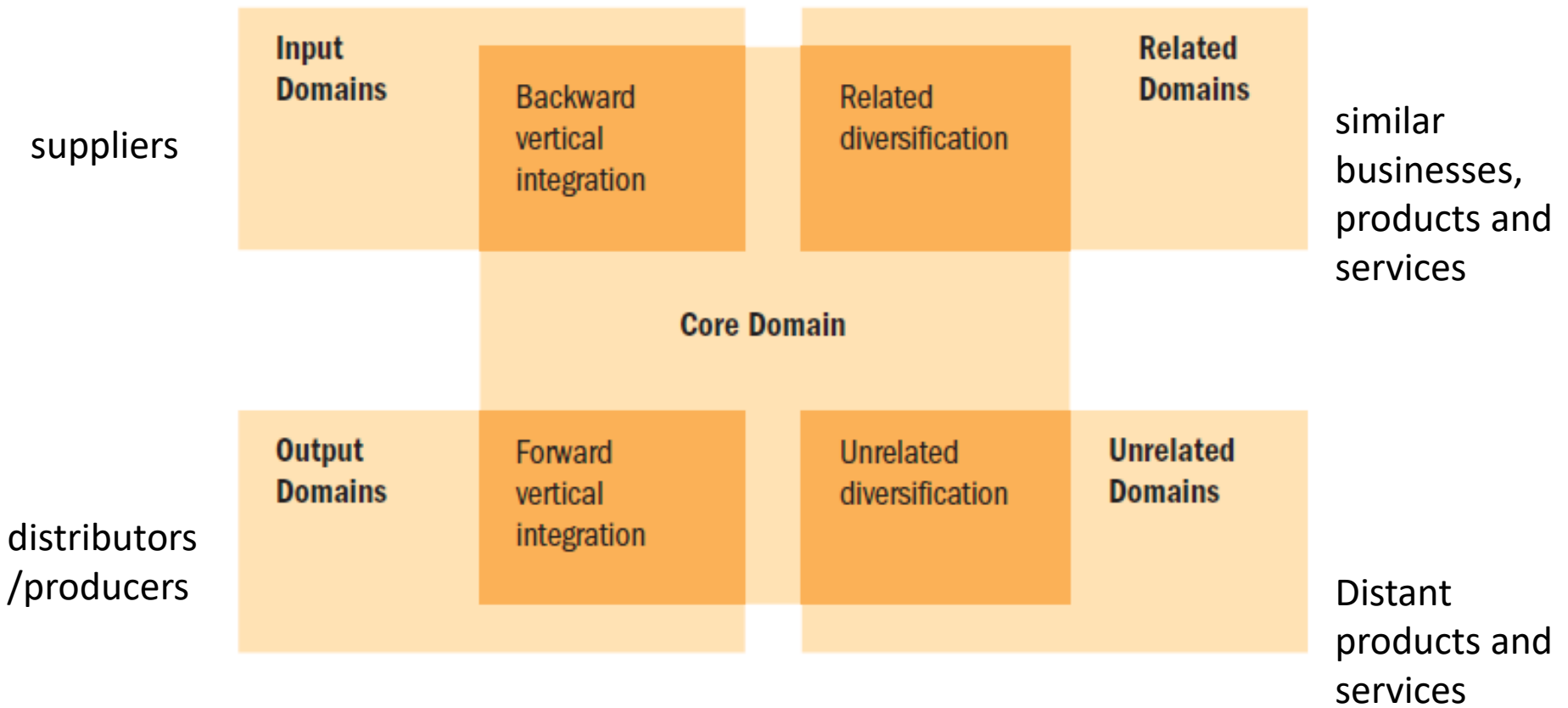
When an organization cannot create more value in its current domain, it searches for **new domains** in which to expand and exploit its core competences.

- corporate level strategy is a continuation of business strategy;
- it consists in taking the core competences and applying them to some other domain.

Four main subtypes of corporate level strategy:

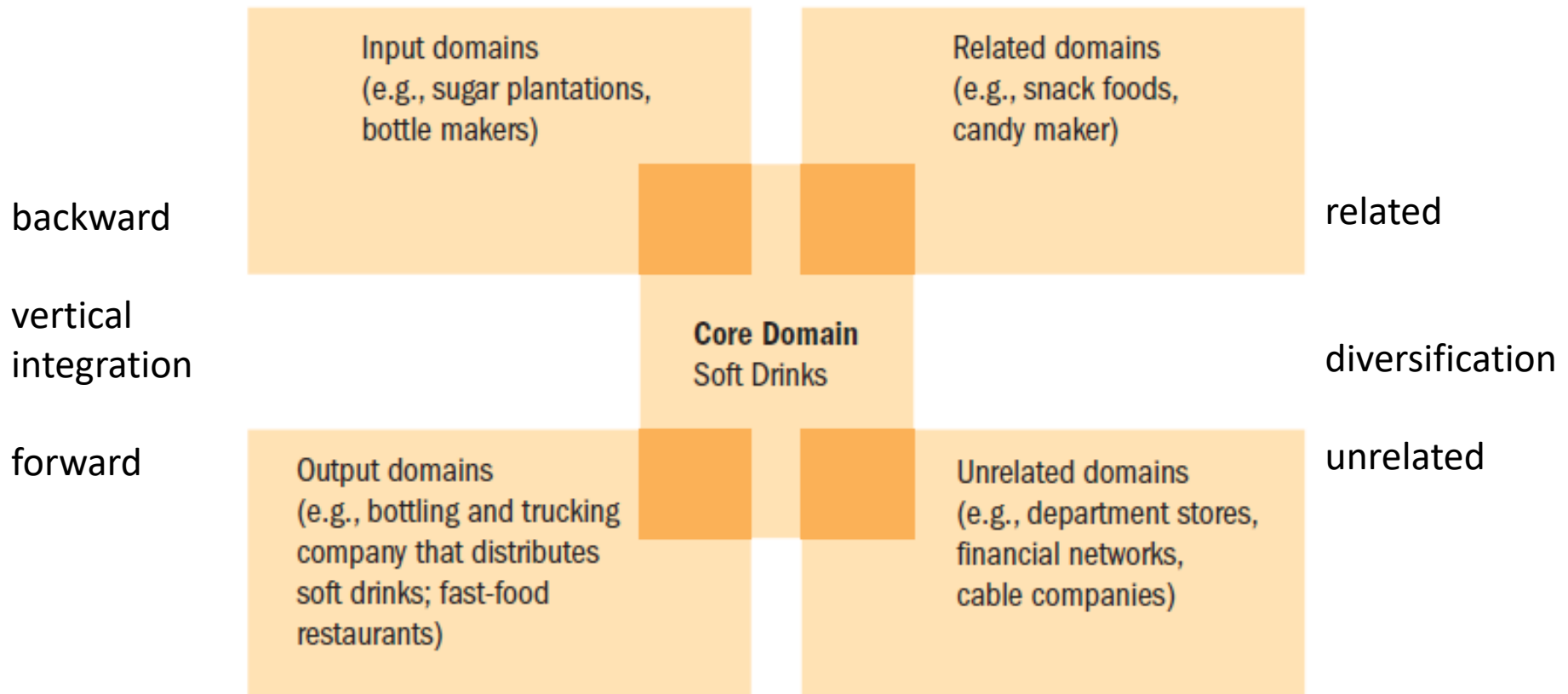
- 1) backward integration;
- 2) forward integration;
- 3) related diversification;
- 4) unrelated diversification.

Figure 8.6 Corporate-Level Strategies for Entering New Domains



Corporate level strategy - examples

Figure 8.7 Soft-Drink Company's Corporate-Level Strategies for Entering New Domains



Integration & diversification

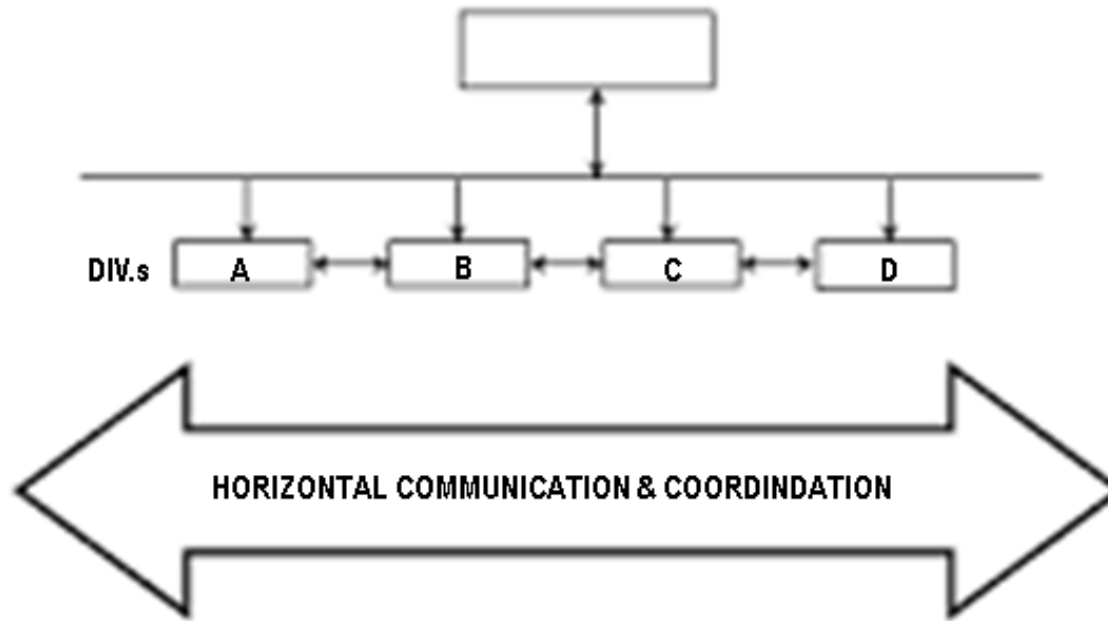
Vertical integration is when an organization decides that it will establish—or take over and buy—operations to make some of its own inputs and become its own supplier (**backward** vertical integration) or distributor (**forward** vertical integration)

Related diversification is the entry into a new domain that is related in some way to an organization's domain e.g. Honda → jet skis;

Unrelated diversification is the entry into a new domain that is not related in any way to an organization's core domain.

= these strategies as well are connected to different structural problems and solutions.

Corporate strategy and structure



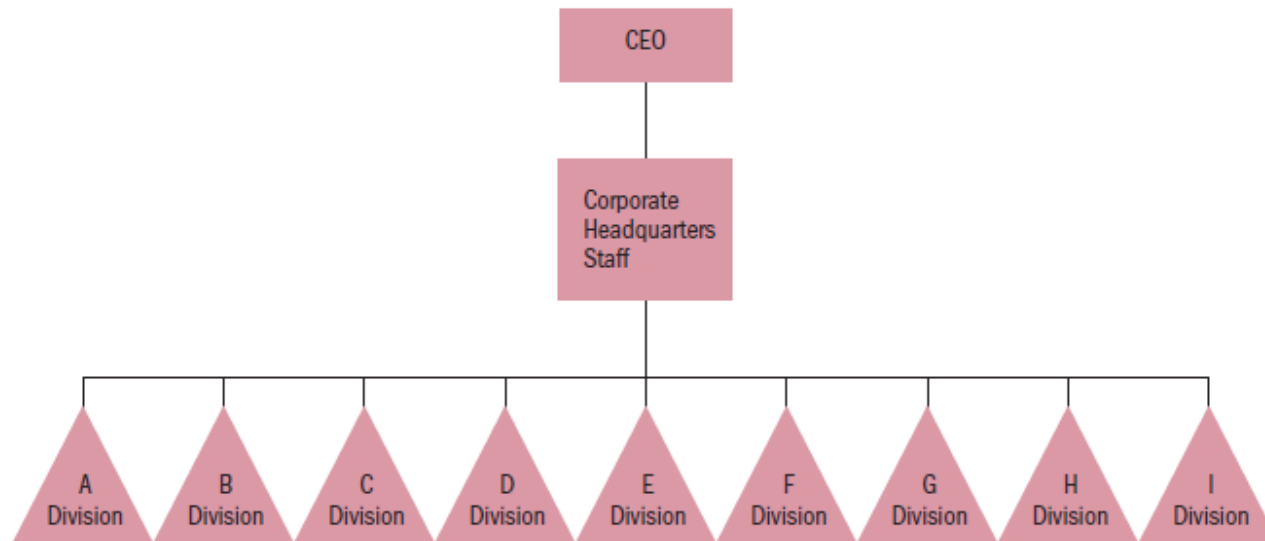
In the case of vertical integration or related diversification, departments, units and sectors of activity are similar so that organizations need to transfer knowledge, skills and human resources from one unit to another;

A divisional structure with horizontal communication and integrating mechanisms is then suitable.

Corporate strategy and structure #2

Figure 8.8 Conglomerate Structure

A structure in which each business is placed in a self-contained division and there is no contact between divisions.



When a company pursues an unrelated diversification strategy, there is no particular need of lateral coordination between units and divisions;

In a conglomerate structure, all the coordination is done by a relatively small corporate headquarters staff which control just for costs and targets achievement.

4) Global level strategy

When an organization begins to market its products or establish production facilities abroad.

Four main subtypes of global level strategies:

- 0) export;
- 1) multidomestic strategy;
- 2) international strategy;
- 3) transnational strategy.

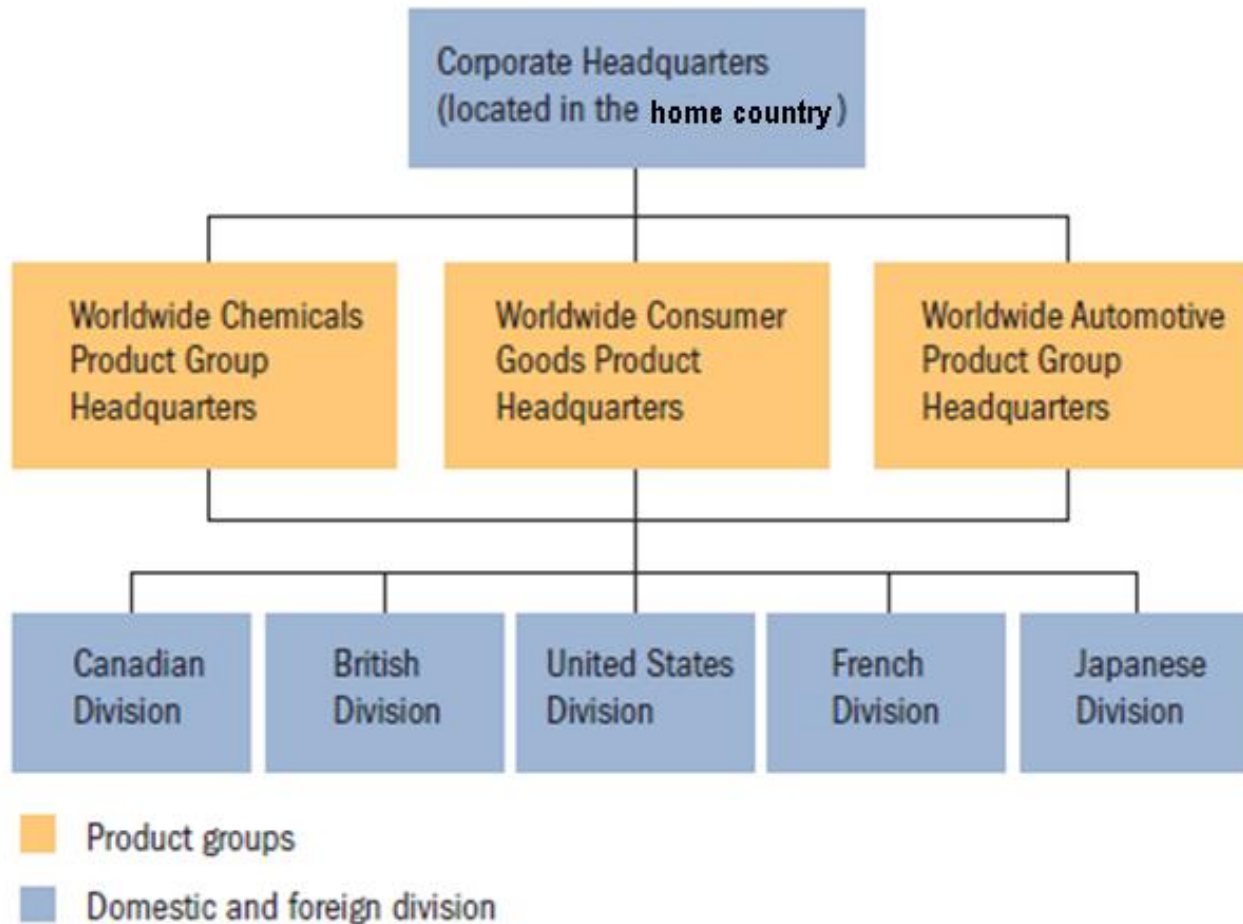
Export: the premise to a strategy of internationalization

1. A small business who starts to sell abroad normally believes that its products can be sold without particular changes and modifications;
2. Initially there will be low level of coordination at the global level, and low level of responsiveness to particular customer demands
>> only agreements with local carriers and distributors;
3. As the global distribution network expands, the need and request to customize products and services may increase...



➤ International strategy

i= global product structure

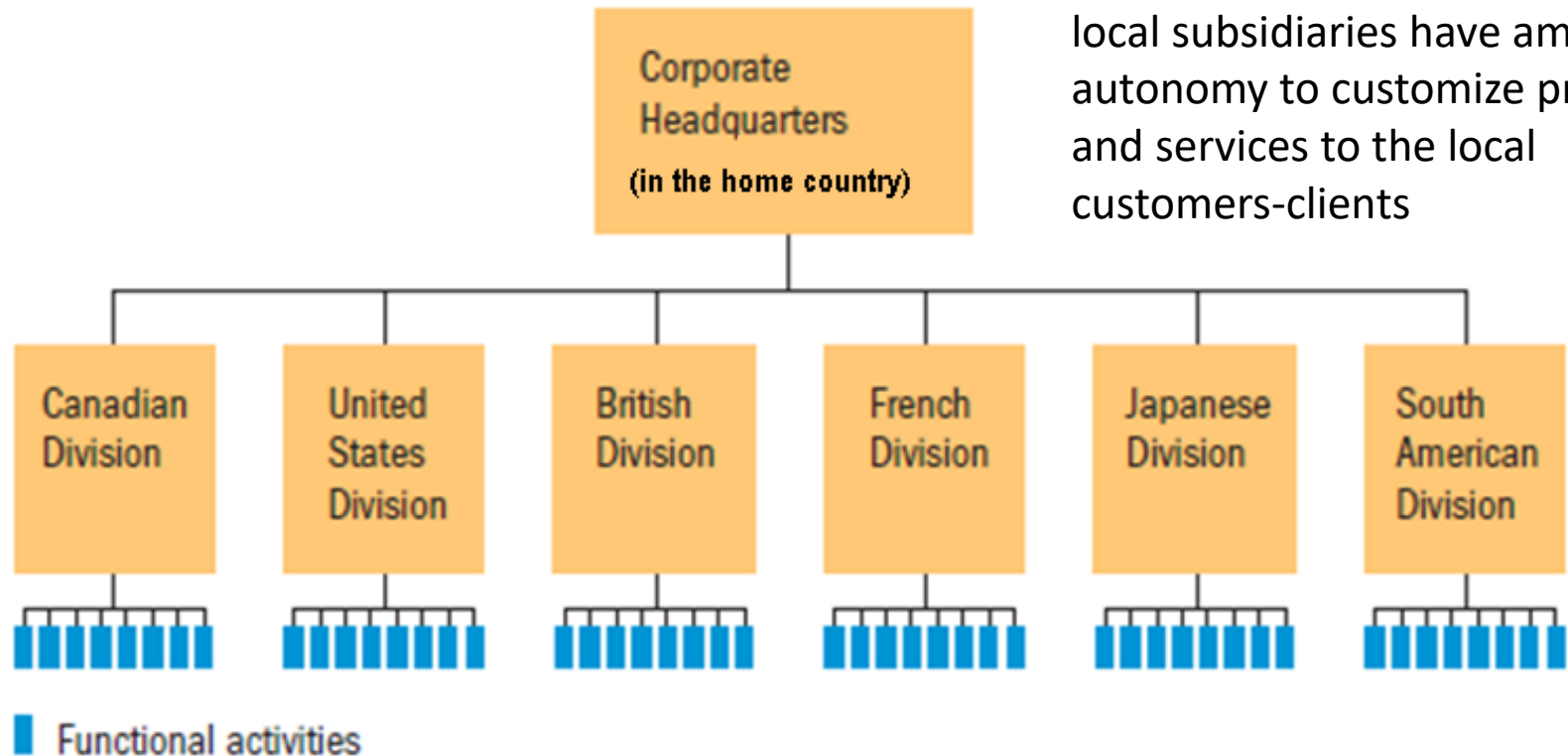


Core competences and functions are still centralized e.g. R&D, product development, engineering

Whereas other value-creation functions being decentralized to national units e.g. marketing, distribution

➤ Multidomestic strategy

= global geographic divisional structure



High decentralization:
local subsidiaries have ample
autonomy to customize products
and services to the local
customers-clients

Authority is decentralized to local managers and directors, functions are duplicated at every location

> Transnational strategy

When a company locates its manufacturing and other value chain activities at the global location that will allow it to increase efficiency and quality.

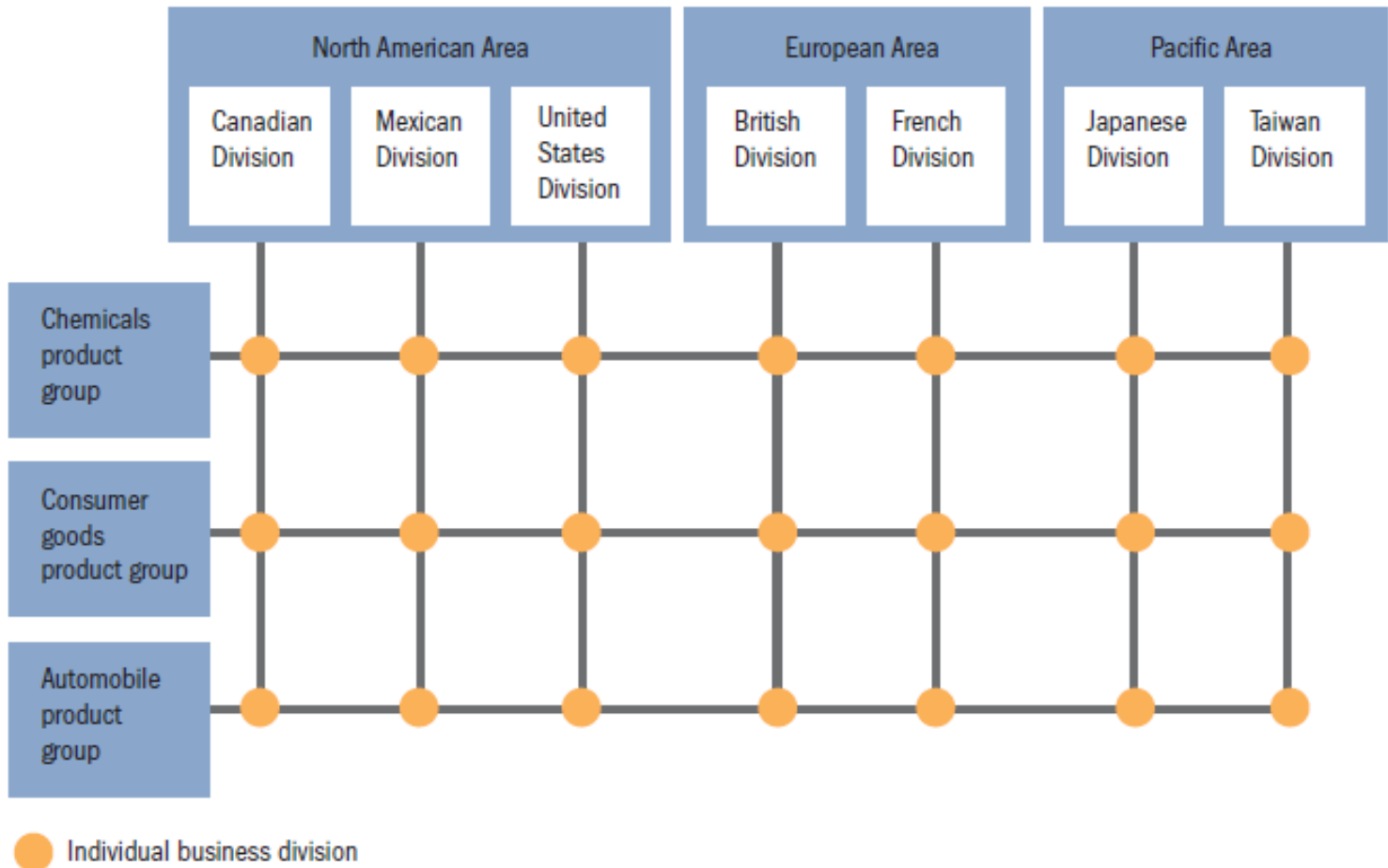
Core activities are located in certain countries, where there is no shortage of skills and knowledge, whereas other more operative functions and activities are located following a cost-reduction approach.

The logo for Philips, consisting of the word "PHILIPS" in a bold, blue, sans-serif font.

Dutch multinational, registered in Amsterdam, but...

the product group headquarters of Phillips' medical division and its R&D is located in Bothell, Washington. Manufacturing, however, is done in Taiwan, and the products are marketed and sold by each international division

Figure 8.11 Global Matrix Structure



Two divisional lines of authority, one according to the product and the other according to the geographic area (instead of the function)

Strategy & structure at the global level

- 1) Multidomestic strategy – multidivisional geographic structure;
- 2) International and transnational strategy – global product structure;
- 3) Decentralization > network VS integration > global matrix.

Organizational culture in MNCs

- notwithstanding the different structural solutions available, organizational culture can work as a powerful integration mechanism in MNCs;
- the culture of a MNC has to be inclusive and consistent with the cultures of its workforce and of the countries where it operates;
- an inclusive culture is different from a unitary homogeneous culture: basic principles and values can be provided, but managers have to remain sensitive to local cultures and preferences;
- develop a global company culture that is able to synthesize and abstract from the values and attitudes shared in each single country or region!

<https://www.comparably.com/news/best-global-culture-2021/>

Additional resources

- Make strategic planning a strategic capability:

<https://www.youtube.com/watch?v=IDZb1JRU7J0>

- How strategy-making has changed in the post-COVID era:

<https://nextday.com/leadership/rethinking-vision-and-strategy-for-the-post-covid-business/>

- On the link between organizational culture and strategy:

<https://www.smestrategy.net/blog/why-are-values-important-for-strategic-planning>

Time for teamwork!

Start to read the Egyptian Swiss Chemical Company case (individually) and then with your team answer to the following questions (slightly modified from the original):

- 1) Is SwissChem working B2B or B2C? Why?
- 2) Describe the SwissChem company's target segment using evidence from the case.
- 3) Outline the role of business in society according to your understanding of the case.
- ~~4) Describe the challenges that might have faced Atef Shorosh in establishing SwissChem.~~
- 5) Describe the competitive business strategy of SwissChem.
- ~~6) Develop a SWOT analysis for SwissChem.~~
- ~~7) ...describe the operative competitive forces in the construction chemicals industry...~~
- 8) Describe the organizational design aspect of SwissChem in terms of organizational structure, specialization, centralization and span of control...
- 9) If you were in Abdel Rahman's position, which alternative strategy would you recommend that the board of directors adopt and why?

The class is then divided in teams of 5 persons each and we have a collective discussion about the case.