

STRATEGY AND 'STRUCTURE' – WHICH COMES FIRST

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ABSTRACT

Strategy and 'structure' – which comes first? Addresses the controversial concept of strategy and structure, what strategic managers consider while planning new organization or re-engineering a failing firm and how it is done. Business strategy is a practical plan for achieving an organization's mission and objectives. Strategy is a plan of action designed to achieve a long term or overall aim. It is a method or plan chosen to bring about a desire in future, such as achievement of a goal or solution to a problem. The objective of this paper is to discuss the true nature of relationship that exists between structure and strategy within the context of the environment and performance. A school of thought proposed that structure follows strategy, while supporting, another school opines that strategy follows structure. A third school is of the opinion that both strategy and structure are reciprocal both in theory and application that they work hand in hand to strengthen an organization towards exploiting opportunities maximally while minimizing threat in the environment. Having reviewed various works on this subject, we make bold to say that the schools of thought were right in their perspectives, notwithstanding the impact of globalization. They should be seen as a simultaneous two-edged sword affecting an organization's environment as well as the nature of its products and market. Hence, horizontal integration of both structure and strategy as a reciprocal agent of organizational planning is the key in this globalization driven era where firms, environment (technology and competitors) and products (innovation, competency, etc.) are considered concurrently. Therefore, we might conclude that for any company to add value at any stage of its existence will depend on serious deliberate evaluation of company's basic strategic building blocks. Moreover, organizations set their strategies and then create a structure that supports that strategy. Moreover, from the military point of view, for a strategy to penetrate the market, it is first initiated before creating a structure to execute it. In theory structure follows strategy and strategy follows structure as the need to restructure arise from a strategic shift, driven by new technologies and market changes.

Keywords; structure, strategy, environment, technology, product/service, munificent, and culture etcetera

INTRODUCTION

Business strategy is generally created at the upper levels of an organization. Grand corporate strategy can be broken down into objectives and tactics to ensure that the strategy is relevant all the way down the organizational hierarchy. We refer to strategy as a procedure or method for achieving a particular goal, usually over a long period of time. It is the skill of making or carrying out plans to achieve a goal. On the other hand, Structure is the management of and relations between the parts or elements of something complex, construct or arrangement according to a plan given a pattern or organization.

Structure and strategy have become objects of empirical research revolving around controversy and debate. These studies were usually focused on establishing the relationship between the two variables – structure and strategy. Our study, therefore will be addressing the question – structure and strategy – which is more critical? Chandler’s work on structure and strategy seems to be the most outstanding controversial stand-point in relation to the question – “strategy or structure: which comes first?” It has been over five decades since he took this stand that structure follows strategy yet it continues to raise scholars’ interest the more in the 21st Century strategic and structural decisions. In his first major work, he defined strategy as the “the determination of the basic long term goals and objectives of an enterprise” and developed the proposition that strategy follows structure, Chandler (1962). David Teece (2008) avers that strategy responds to environmental factors; such as the opportunities and needs created by changing population and changing national income and by technological innovation, the prospect of a new market or the threatened loss of current ones. In contrast to the above, Hall and Saias (1980) inverted Chandler’s thesis, suggesting that strategy follows structure. Looking at it from the situational point of view, Henry Mintzberg (1990) argue that strategy and structure are reciprocal in nature; one cannot do without the other. By implication he synthesized the stand point of Chandler and Hall and Saias. Chandler (Ibid) opines that the organizational structure has direct relationship with its strategy based on the nature and diversity of its product and market. On the other hand, Hall and Saias (1980) Emery and Tristy, (1965); Woodward, (1958) contrasted that the relationship between strategy and structure has indirect relationship in that organizational structure exists as a result of determined characteristic of the technology employed, by the nature of and variations in the environment.

OBJECTIVES

The objective of this paper is to discuss the true nature of the relationship that exists between structure and strategy within the context of the environment and performance. An attempt is would be made to answer the question – “strategy and structure: which comes first”

METHODOLOGY

This paper is a conceptual research work based on literature review. It is based on a mono-method qualitative approach which uses secondary sources of data collection. Secondary data are collected and recorded by a third-party researcher for purposes other than contemporary needs of the researcher (Harris, 2001). The paper is born from structured survey of a number of articles, which were published over the last twenty years – like works of Alfred Chandler (1962), Duncan (1972), Nag, Hambrick and Chen, (2007). Hall and Saias (1980), Henry Mintzberg (1990) and many other works revolving around the issue in contention. This major database covers at least ten (10) business and social science publications. Keywords used are structure, strategy, environment, technology, product/service and culture etcetera. These keywords helped the researchers to do justice to the topic. These words also were used to generate a list of more than fifteen articles which we reviewed to this effect.

CONCEPT OF STRATEGY AND STRUCTURE

STRATEGY

The central concept in the field of strategic management is that of strategy and it has continued to elude a common definition and operationalization (Hambrick, 1980). It is generally believed that the concept of strategy has its antecedents in the military discipline. Within its original context, it was simply understood as a military means to a political end. However, the concept did not originate with the Greeks. The concept of strategy in military and political context has remained prominent throughout history and has been discussed by many scholars, numerous militarists and political theorists (McKiernan, 2006).

The need for the concept of strategy in business became greater after World War II, as businesses moved from a relatively stable environment into a rapidly changing and competitive environment. One of the early writers to relate the concept of strategy to business was Von Neumann in 1944. Later in 1947 together with Morgenstern, developed the “Theory of Games”. This had to do with giving rise to hope that general theory of competitive behavior would emerge bringing conceptual insight into competition and collaboration/bargaining between and within firms.

Over the past 50 years, the concept of strategy has penetrated the business segments and has been accepted as a management tool for achieving set targets. The many definitions given on the concept

of strategy can all be captured through the definition given by Chandler (Ibid) in which he emphasized the determination of basic long term goals and objectives, the adoption of courses of action to achieve them and the allocation of resources as being central to the concept of strategy.

STRUCTURE

The concept of organizational structure is usually understood to imply a configuration of activities that is characteristically enduring and persistent; the dominant feature of organizational structure is its patterned regularity. Some have sought to describe structure as a formal configuration of roles, procedures and the prescribed framework of the organization. Others have described structure as the patterned regularities and processes of interaction (Ranson, Hinings and Greenwood, 1980). Following from the works of Weber (1946) on bureaucracy, structure can be defined as a formal dimension of framework depicted by precise and impersonal tasks, rules and authority relations. The explicit purpose of such formally circumscribed frameworks remains to achieve more calculable and predictable control of organizational performance (Meyer, 1972; Child, 1972, 1977). This forms the first major school of thought on structure. Out of this school Ghoshal, Korine, and Szulanski (1994), Habib and Victor (1991) proposed a simple way of describing organizational structure.

Another popular approach is the mechanistic organic continuum of structures. Mechanistic model implies a hierarchical, rigid structure in which power and authority are centralized at the hands of the top management and the designers of work processes. Organic model as a structure type enjoy considerable autonomy and have a high degree of discrimination when making certain decisions (Burns and Stalker, 1961; Barney, 2002; David, Hwang, Pei, & Reneau 2002).

Delmas and Toffel (2009) posit that organizational architecture can be divided into explicitly mandated formal structures (incentives, information processing structures and authority relationships) and emergent informal structures (culture, social networks and communities). Process scholars have acknowledged that administrative procedures are contextualized by social, political and cultural factors (Johnson, 1987; Lovas and Ghosal, 2000). The above arguments tie up with the structuration theory and the famous "duality of structure." (Giddens 1979, 1984). Jarzabkowski (2008) conclude that top managers may draw upon existing structures in the process of altering them, suggesting a more dynamic structuration process which is continuous and can be either sequential or simultaneously applied.

From the works of Rice and Mitchell (1973), there is an increase in the need for a hybrid system of defining structure in research. Weick (1976) and March and Oslen (1976) admit that although they may be loosely coupled, the position and activities make little structural sense though quite arbitrary. Organizational structure, therefore describes both the prescribed framework and realized

configurations of interactions and the degree to which they are mutually constituted and constituting (Fombrun, 1986).

ENVIRONMENTAL CONTEXT

Environmental context represents an outer environment within which the elements of organizational strategy are blended. Organization theorists emphasize that organizations must adapt to their environment if they are to remain viable. As such a greater need to clearly identify both the components and dimensions of the environment and clearly define how they exist. However, one of the shortcomings of much of the theoretical and empirical research on organizational environment or the elements comprising it (Lawrence and Lorsch, 1967; Thompson, 1967; Terreberry, 1968).

Dill (1962) in one of the earliest attempts to define the environment commented that it is all elements not formally defined as belonging to the organization. Duncan (1972) defines environment as the totality of physical and social factors that are taken directly into considerations in the decision-making behavior of individuals in the system. The external environments are the factors outside the boundaries of the organization.

Duncan (1972) is credited with the introduction of the empirical construct of environmental perception of uncertainty, degrees of complexity and dynamic environment where behavioural aspects of individuals differ with some having high tolerance of ambiguity and uncertainty than others leading to perception. He identified two dimensions of the environment, namely the simple – complex dimension and the static – dynamic dimension. However, Downey and Slocum (1975) contradicted Duncan's assertions and concluded that uncertainty is an attribute of the physical environment and that physical environment attributes should not be used as criterion for uncertainty measure. The works of both have been developed further by Tan and Litschert (1994) who conclude that organizational environment reflect two prominent perspectives. The first perspective is that of information uncertainty, it indicates that as the environment becomes less munificent or more hostile, firms are subjected to greater uncertainty.

Finally, the environment may also be viewed as a multidimensional construct with conceptual and empirical studies having identified several specific environmental dimensions, which include dynamism, complexity and hostility (Dess and Beard, 1984; Child, 1972; Mintzberg, 1979; Miller and Friesen, 1978). Environmental complexity and dynamism have been closely linked to the information uncertainty perspective (Lawrence and Lorsch, 1967; Thompson, 1967), while hostility has been tied to the resource dependence perspective (Aldrich, 1979). The perspectives offer a better

understanding of the impact of each environmental dimension on the formulation of a firm's strategy (Miles and Snow, 1978; Miller and Friesen, 1982).

THE ENVIRONMENTAL ANALYSIS

TASK ENVIRONMENT AND THE INSTITUTIONAL ENVIRONMENT

Bourgeois (1980) while studying strategy and environmental integration concluded that the issue is not whether analysis should be objective or perceptual but rather he suggests that both are real and relevant from a strategic management standpoint. Objective environments are relevant to primary strategy making (domain selection), while perceived environments are a prime input to secondary strategy making (domain navigation). It has also been argued that perceptual analysis makes sense since only factors that participants perceive can enter into strategy formulation behavior (Duncan, 1972; Lawrence and Lorsch, 1967).

It has been an unresolved issue among researchers on how environment can be analyzed. This has been a source of equivocal empirical results. Some researchers have treated the environment as an objective fact independent of firms (Aldrich, 1979) while others have treated the construct as perceptually determined and enacted (Weick, 1969). The debate is enriched by reviewing some of the outstanding works from empirical and theoretical literature available to try and draw a favourable analysis criterion.

Fahey and Narayan (1986) opine that analyzing the environment as a whole is impossible since it is too complex and inter connected. They have proposed that the environment be decomposed into segments. The two conceptions that are widely used in organization environment are the task environment and the institutional environment. The task environment can be broadly defined as all aspects of the environment potentially relevant to goal setting and goal attainment. Institutional environment includes – societal, demographic, economic, political and international elements (Scott, 1987).

STRATEGY STRUCTURE RELATIONSHIP: WHAT SHAPES WHAT?

The relationship between strategy and structure has been a subject of both empirical and conceptual studies with aim and intention to show the direct or indirect link from strategy to structure. Chandler (Ibid), formed the basis of the structure follows strategy paradigm which was later tested and confirmed in Britain (Chanon, 1973), France (Pooley-Dias, 1972) and Germany (Thanheiser, 1972). Rumelt (1974) was then able to show how the match influenced performance. In all these cases strategy was characterized mainly in terms of breath of markets either as diversified or undiversified. Structure on the other hand was largely discussed according to its divisionalized or departmentalized form and nature of controls.

Firms which are able to achieve a fit between their strategy and structure can create a significant competitive advantage, while firms that do not have a fit are left vulnerable to external changes and internal inefficiencies. As a result, firms with a fit between strategy and structure should perform better than those without such a fit. Organizations face not only an “entrepreneurial” problem (which strategy to adopt), but also an “administrative” problem (the selection of structures that are consistent with the strategy). They argue that, over time, strategy and structure reinforce each other: organizations choose an administrative system that is consistent with their strategy and then find that this system continues to propel them in the same strategic direction (Miles and Snow 1984). This is supported by Chakravarthy (1982) who found out that organizations having different levels of adaptation would utilize different strategies to match their structural arrangements. Using Miles and Snow’s (1978) strategy typology, Chakravarthy argue that organizations with a high-level of adaptation would exhibit a prospector strategy and organic structure while organizations with a low-level of adaptation would adopt a defender strategy and a mechanistic structure.

Galan and Sanches – Bueno (2009) after reviewing 10 years’ data from 1993 to 2003 with context to Spanish organizations concluded that strategy leads structure. However, the former is stronger than the latter. They also conclude that, the relationship between diversification strategy and multidimensional structure postulated by Chandler (1962) focusing on administrative efficiency remains applicable to today’s market only that it requires broadening, based on current circumstances. In architecture form follows function. In business, structure follows strategy (Abbot, 2009). In essence, the company decides what its (hopefully) unique approach to marketplace is and structures an organization that best fits that approach. With ICT age, it is not uncommon to find that one can follow the maxim of the architect Van der Rohe where “one can do more with less’.

STRATEGY AND ENVIRONMENT LINKAGE

A consistent characteristic of the strategy paradigm, regardless of perspective is the assumption of a link between a firm’s strategic profile and its external context (Venkatraman and Prescott, 1990). The strategic choice perspective asserts that this linkage has significant implications for performance (Miller and Friesen, 1983), yet empirical evidence is inconsistent and limited to results that reflect market driven economies.

It is further posited that the fit between environmental dimensions and strategic orientation will lead to better organizational performance (Venkatraman and Prescott, 1990). Consistent with this perspective, Mintzberg (1973) defines strategy as a patterned stream of decisions, which focus on a set of resource allocations that are employed in an attempt to reach a position consistent with a firm’s environment.

The evidence supporting a relationship between the environment-strategy co-alignment and performance is compelling (Smith and Grimm, 1987; Miller and Friesen, 1978, 1983, Miles and Snow, 1978; Venkatraman, 1990; Venkatraman and Prescott, 1990). For firms that operate in competitive environments, the strategy literature indicates that there is a need for a distinctive strategic orientation in order to exploit critical environmental resources and achieve a competitive advantage (Child, 1972; Miller and Friesen, 1983; (Luo and Yu, 1991).

STRUCTURE AND ENVIRONMENTAL LINKAGE

Over the last decade, environmental issues have become increasingly significant to policy makers in both the political and the business world (Avilla and Bradley, 1993; Ladd, 1994). Globally, governments are increasingly seen to be adopting environmentally aware measures, to regulate the activities of corporations and consumers alike. For the business community, the issue has been how seriously to regard the need for environmentally aware strategies. The environment is increasingly perceived to be affecting bottom line performance and this presents a fundamental conundrum for the business strategists. A decision is required as to the position a company adopts in relation to the environment. This position may be located anywhere across a continuum ranging from adopting a policy of compliance with existing or future regulations, to attempting to adopt a management strategy (Ghobadian, Viney, James, & Liu, 1995).

Literatures on population ecology of organizations contend that the environment selects out various common organization forms. There are only a rather limited number of possible strategies and structures feasible in any type of environment. In either event, the repertoire of viable configurations will tend to happen relatively quickly in short bursts and that once reached, a fairly stable set of configurations will exist over a long period (Karake, 1996). Organizations with too little structure lack enough guidance to generate appropriate behaviours efficiently while organizations with too much structure are too constrained and lack flexibility (Okhuysen and Eisenhardt, 2002; Baker and Nelson, 2005; Siggelkow, 2002; Martin and Eisenhardt, 2000; Rowley, Behrens and Krackhardt, 2000).

This is found coherent to structure legitimization by Pavis, Eisenhardt & Bingham. (2009) who elaborate that entrepreneurial organizations that have narrow structures find the challenge in any environment the same, they need to gain enough strength in the structure before failure ensue. For Lowell and Rumelt (2009), in this uncertainty, businesses have to do more of what is working out and less of what is not. It is foolhardy to think that one can see the future and design strategies for response. One reason why results from research regarding the inter-relationships between organizational form, response to environmental change and performance may be mixed is that prior

research has had the tendency to focus on changes between organizational forms as opposed to also examining changes within organizational form (Fox-Wolfgramm, Boal, and Hunt, 1998). Given that organizations can respond to emerging environmental conditions by making changes either within their current form or by changing to another form, the current study examines both within-form and between-organizational-form changes (Davis, Eisenhardt and Bingham, 2009).

DISCUSSIONS

A. Strategy, Structure, Environment and Performance Linkage

Any research domain that contains the study of firms from a strategic management perspective has firm strategy formulation and implementation decisions pointed out as the key in explaining superior performance. Conceptually, this relationship is purported to be within the paradigm that explains the effect of environment, strategy and structure on firm's performance. This leads to either the historically dominant approach which focuses on empirical classification of organizations in order to define inductively a set of configurations appropriate to a given context or the deductively derived configurations which apply broadly and you are not dependent on particular industry contexts.

B. Configuration Approach

The concept of organizational configuration has been increasingly used in publications on performance of companies. Although promising in this context, the study of organizational configurations encompasses a variety of research streams (Ketchen, 1997; Ferguson, 1999). It remains a very tempting thing to use this concept because it is gaining high recognition in organizational research but even more specific in strategic management "Configuration approach" or archetypes, gestalts, consistency or fit indicates that a firm's performance will depend on the degree of adjustment existing between organizational context and organization structure remembering that no single form of organization exists that is ideal for every situation (Donaldson, 2006; Zott and Amit, 2008). Ketchen et al. (1997) argue that certain strategies are usually associated with some specific organization structures in particular environments. This can be done due to the fact that strategy, structure and environment have some complimentary aspects and what really guides firm success is an appropriate adjustment between this three (Miller et al, 2002; Snow et al., 2005).

Fiss (2008) concluded that the study of organizational configuration which he defines as commonly occurring clusters of attributes of organizational research and strategic management literature. Likewise continuing attention to configuration theories stem from their multidimensional nature, acknowledging the complexity and interdependent nature of organization, where fit and competitive

advantage frequently rest not on a single attribute, instead on complimentary relationship between multiple characteristics (Burton and Obel, 2004; Miller, 1996; Siggelkow, 2002). However, Pertusa-Ortega, Claver-Cortes, & Molina-Azorin (2009) in their study evaluating strategy, structure, environment and firm performance in Spanish firms noted a contradiction. To them even when both internal and external adjustments are combined, statistical analysis indicated a contradiction to the fact that completely adjusted firms have a better performance.

Miler and Friesen (1983) summarized their findings by arguing that successful archetypes adopted differing strategies to cope with different environments. Management must be able to scan and interpret the environment and make decisions appropriate for both internal arrangement and external alignment. Lenz (1980) found that the combination of environment, strategy and organizational structure in high performance firms differed significantly from that of low – performance firms. Similarly, Hambrick (1983) found that alternative strategies did not lead to equal success, within an industry. Current literatures suggest that different strategies may have different performance implications.

Astley, (1983) indicated that organizations tend to change their elements in a manner that either extends a given configuration or moves it quickly to a new configuration that is preserved for a long time. Piecemeal changes will often destroy the complementary among many elements of configurations and will thus be avoided. Only when change is absolutely necessary or extremely advantageous will organizations be tempted to move concertedly and rapidly from one configuration to another that is broadly different. Such changes, because they are expensive will not be undertaken very frequently. Consequently organizations will adhere to their configurations for fairly long periods.

It is important to note that from the above arguments, both theoretical and empirical arguments have been deservedly influential, but more comprehensive and systematic tests are still required. Proper testing requires incorporating the interaction and doing so will serve to demonstrate further that the world of organizations and their strategies do not sort itself out quite as neatly as theory seems to suggest. Results may be mixed with hints of contingencies and complications. Sluismans (2005) concludes that it is not only because of the increasing use of the concept of configuration, but mainly because of this apparent usability in getting closer to the truth as to how things in organization happens that this concept deserves to be explored. However, even with all these, common agreement on what configurations are and how they are used practically is still lacking.

C. Co-alignment Approach

Co-alignment is also referred to as consistency, contingency, 'fit' is emerging as an important organizing concept in organizational research (Aldrich, 1979), including strategic management (Miles and Snow, 1978; Venkatraman and Camillus, 1984; Venkatraman and Prescott, 1990). This concept's relevance to strategic management research stems from a view that the strategy concept relates to the efficient alignment of organizational resources and capabilities with environmental opportunities and threats (Andrew, 1971; Bourgeois, 1980; Schendel and Hofer, 1979). In general, co-alignment refers to the match between (or among) a set of theoretical dimensions. Its role in the organizational theory literature is important from two different perspectives. First is the descriptive perspective which specifies the existence of relationships among a set of theoretically related variables without any explicit linkage to performance. Second is the normative perspective which develops an explicit link between co-alignment and performance.

The development of a scheme powerful enough to compare and contrast all the differing perspectives may be a difficult task. Nevertheless, Venkatraman and Camillus (1984) proposed a conceptual scheme for classifying major schools of thought. Two dimensions underlie the proposed scheme. These include the conceptualization of fit; they argue that although strategy has been conceptualized in different ways, one fundamental distinction underlies most conceptualizations on whether the focus should be on the content of strategy or on the process of strategy making. The other dimension addresses the domain of fit. They observed that because strategic management presently serves as a meeting ground for researchers rooted in different disciplinary orientations, the field is marked by great diversity in concepts, terminology and methods of inquiry. Using the classical organization-environment juxtaposition, namely: internal, external and integrated.

From the foregoing, it is evident that the various propositions on performance implications of environmental strategy relationship rest on the general notion of co-alignment, which is a central anchor for strategic management research (Miles and Snow, 1978; Venkatraman and Camillus (1984). However, Venkatraman and Prescott (1990) warn that its use in theory construction is limited unless considerable attention is provided to link the articulation of the theoretical position with appropriate operationalization schemes. Specifically, in researching the effects of environment strategy co-alignment, Venkatraman and Prescott (1990) pointed out the emergence of two issues. First are the problems surrounding the conceptualization and operationalization of environments and strategy; and second, is the development of an appropriate analytical scheme for systematically measuring the degree of co-alignment and its impact on performance.

CONCLUSION

The theoretical framework for strategy, structure and environment that has been tested in the past is today under serious scrutiny. Managers are leading more through uncertainty than ever before due to influences from globalization. These influences affect both firms' products and market without recourse to their size and years of experience. Businesses fail today in rapid succession that even governments have been drawn back to pay special attention to bailing out businesses. The magnitude of this era will be realized when the fog has faded and new nexus for strategy structure alignment is being sought. The resultant demand is to build flexibility into the strategy process, with a portfolio of initiatives from which best choices shall be made adaptable to the new environmental pattern. Firms which are able to achieve a fit between their strategy and structure can create a significant competitive edge, while firms that do not have a fit are left vulnerable to external changes and internal inefficiencies. Thus, under the global economic crises, the fit between these constructs is likely to be the key focus of scholars and practitioners. Despite this logical explanation empirical results have been mixed. Some researchers have found support for the configurations performance relationship while others report no connection. This equivocality has created concern about the appropriateness of future inquiry. Indeed, in reference to the most prominent approach to configurations strategic groups. It has been suggested that it may be necessary to abandon this concept and redirect attention towards other potential determinants of performance. Before research on configurations and performance is abandoned, plausible alternative explanations for the lack of findings should be examined. The role of statistical power in extant research provides one such alternative. Statistical power is, in essence, the probability that an empirical test will detect a relationship when a relationship, in fact, exists.

Specific longitudinal empirical studies in small and medium enterprises more especially in emerging economies is recommended to assess the strategy-structure-environment configurations that have been experienced in the changing environment over the economic crisis period being experienced and also provide the linkage to context and the measures. This will be expected to be a significant contribution to knowledge in this era as no other study seems to have considered this holistic approach.

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