

## **STRATEGY AND STRUCTURE RE-EXAMINED**

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### **ABSTRACT**

This study attempts to extend current understanding of the relationship between an organization's structure and its strategy. A selective review of conceptual and empirical studies has been used to find out whether the strategy determines structure or structure determines strategy. It is assumed that, each affects the other simultaneously. To find a better solution for this phenomenon a conceptual framework and hypotheses related to the argument have been developed. Most of the studies suggest that the relationship between strategy and structure is highly complex. It is confirmed that changes in the structure depend on the strategy. However, some scholars argue that structure leads to change the strategy. Even though evidence does exist, however, to say with confidence that chosen strategies cannot be effectively implemented without developing a sound organizational structure.

### **INTRODUCTION**

Much research has been conducted on the relationship between organizational structure and strategy. One of the earliest studies stated that a new strategy required a new or at least refashioned structure if the enlarged enterprise was to be operated efficiently. (Chandler, 1962). Chandler, the pioneer of this strategic-structure perspective further mentioned that "*the strategy of diversification led to organizational problems and eventually to the emergence of a new cooperate strategy*". (Fouraker & Stopford, 1968:48). Many scholars have followed this classic proposition. Chandler's proposition has been supported by many scholars such as, Wrigley, (1970); Pave, (1972); Channon, (1972); Rumelt, (1974); Dyas and Thanheizer, (1976); Grinyer, Yasai-Ardekani and al Bazzaz, (1980), many Chief Executive Officer's (CEO's) in Shell Group, (1993); Bin, 1993; General. Electronic (GE), (1997); Geoffiecy Keeys, (1997); Pan Canadian Petroleum Ltd, (1994); and many management consultants such as McMohan & Bane, (1994); Troy, (1994); Raphael, (1993), Crampton, (1993).

Drucker (1954), in his studies of General Motors (GM) and Sears, Roebuck and Company, found that both of these organizations took years in developing and clarifying the organizational structures required in implementing their strategies. (Byars, 184:163).

Until very recently scholars have depended on this proposition. However, most current studies on the relationship between structure and strategy have developed the following main conclusions.

- Miles & Snow (1978) say that different kinds of strategies allow for specific structural predictions. (Robbins,1990:130)
- Michael Porter of the Harvard Graduate School of Business argues that organizations can propose one of four strategies: cost leadership, differentiation, focus and stuck-in-middle specific structural predictions could be made for the first two strategies. (Robbins, 1990:136).
- Miner's strategy framework is composed of four dimensions-innovation, marketing differentiation breadth and cost control. The structure depends on these strategies. (Robbins, 1990:139).
- The population-ecology perspective provides a general proposition that strategy acts as a mediator to select organizational structure to fit with the existing environment. (Aldrich & Pfeffer, 1976).
- The information-processing proposition considers that a structure with a sound information process can be helped to implement organizational strategy more accurately. (Egelhoff, 1982).
- Organizational structure places constraints on choosing a strategy. (Bobbitt & Ford, 1980).
- A firm's existing operational and administrative mechanism (technology and structure) will have significant influence over the selection of future strategy choice. (Bower, 1970, 1975; Burgelman, 1983).

These studies support the fact that understanding this dilemma is highly complex. However, these studies, in general have meaningfully contributed to the implications of strategy and structure phenomena. Unfortunately, these studies do not pay more attention to identify the causal relationship between strategy and structure. The major missing part of these studies is a lack of empirical testing in these causal relationships. The first step in this direction is developing a causal model and synthesizing existing ideas into a cohesive set of testable hypotheses. It can lead to extending current knowledge in this dilemma. As a second step, the hypotheses can be tested empirically. This paper is a first step in that direction.

The paper starts with a current literature review on strategy and structure under different scholarly arguments. Then it develops a

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conceptual framework. This is generally representing the relationship between various strategies and organizational structure as well as other factors, which affect strategy and structural change.

The proposed conceptual framework depends on the results of the reviewed literature. For the purpose of this study the nature of the sample of the review studies is not taken in to consideration. Thus, the constraint of the sampling can be became a limitation of the framework. The results of the reviews depend on types of the organizations and size of the organization.

What is an organization size? Indeed, it is still in the researchers' black box. Is that depending on number of employees or not? A beauty salon with 100 workers may be larger than a car manufacturing organization with 100 workers. Types of organization can be diversified from retail shop to a manufacturing organization.

It was identified that scholars for their studies have used two types of sampling such as homogeneous and heterogeneous. Each of these sampling types provides different results. Homogeneous sampling generally concerns the analysis of one type of organization and the applicability of the results is thus limited to those kinds of organizations. To test the validity of the results, it is needed to test empirically by using different, but homogeneous samples. Heterogeneous sampling consists of different types of organizations. However, researchers do not use this type of sampling very much.

To propose the new conceptual framework, empirical results, which were gained from both types of sampling are considered. However, much attention has given to homogeneous sampling. Thus, the sampling error has not been eliminated completely.

The applicability of the conceptual framework is limited to large-scale manufacturing organizations. Smaller scale organizations' too face this dilemma but in a different context. On the other hand this study is primarily based on the Chandler's proposition and his follower's as well as critics' propositions, which were very often based on large-scale manufacturing organizations. Thus, the "unit of analysis" of this study would be large-scale manufacturing organizations.

## **THE STATE OF THE CURRENT LITERATURE**

### **Organizational Structure**

Thompson, (1967) defines organizational structure as an internal pattern of relationships, authority and communication. (Egelhoff 1982:437). Nearly three decades later Barney & Griffin (1992) and Bartol & Martin (1994) explain organizational structure as a basic framework of positions, groups of positions, reporting relationships and interaction patterns that an organizational adopts to carry out its goals. It is evidence that still scholars depend on this formal structure concept.

The another classification of organizational structure is the division of task (horizontal differentiation), the distribution of decision-making authority (vertical differentiation) and the level of integration used. Using these criteria, structures have been classified as products, processes or a combination of tall and flat types.

Burns & Stalker, (1961) classified structure as a mechanistic-organic structure while Mintzberg (1979) explained structure as bureaucratic-adhocratic. Mintzberg (1979) further explained that structure is considered as mechanistic when its behavior is standardized and it is considered as organic when there is no standardization. (Pathasarthy & Sethi 1992:89)

The structuralists are generally concerned about relationships among the structural characteristics of organizations, determinants of variability in the structural characteristics of organizations and the consequences of structural variability of variability in organizational outcomes.

Weber has generally influenced the structuralists' perspective. His bureaucratic system consists of division of labor, clear authority, hierarchy, formal selection procedure, rules and regulations and impersonal relationships. The idea of division of labor, however, has been known for centuries. In 1776 Adam Smith demonstrated how the manufacturing of a pin could be accomplished much more efficiently through the division of work. (Fredrickson, 1986:280-282).

Structuralists define a structure as framework of the organization and a formal configuration of roles and procedures. (Greenwood, 1980). Weber, (1946) heavily influence this. The followers are Hail, (1963); Hage

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& Aiken, (1967); Pugh et.al, (1968,1969); Blau and Shoenherr, (1971); Meyer, (1972); and Child, (1972,1977). (Kimberly, 1976:571).

Organizational structures are considered as a function of the firm's environment, Lawrence & Lorsch, (1969); Strategy, Chandler, (1962); and technology, Woodward, (1965). Consistent empirical support exists for strategy as a determinant of the firm's structure. Rummelt, (1974); Wrigley, (1970). (Robbins, 1990:81-145).

Pugh, Hickson, Hinings and Turner, (1968) provide operational definitions for five dimensions of organizational structure such as, specialization, standardization, formalization, centralization and configuration. The literature review of the study identified "flexibility" as an another types.

The empirical survey of their study proved that structures always depend on types of organization. For example, subsidiary manufacturing organizations are distinctively high on structuring of activities while government manufacturing is high on structuring activities and concentration of authority. Municipal public service is high on authority and line control of workflow. Generally, manufacturing organizations are not much concerned about those dimensions. (Pugh, Hickson, Hinings and Turner, 1968).

The structuralists identified many factors affecting structure. Some of them are inter-organizational factors and others are intra organizational factors. Inter organizational factors are workers, technology, input out put processes and product markets to which it sells. Technological political, economical changes are considered as intra organizational factors. (Forabrum, 1986).

Another perspective of the structure is "interaction". Interactionists define structure as the patterned regularities and processes of interaction. According to them it is needed to identify day to day actual interactions to get better understanding of structure. (Merton, 1990; Selznick, 1943, 1949, Gouldner, 1954, 1955; Blau , 1955; Crozier, 1964; Bittner, 1965; Gerfinkel, 1967; Douglas, 1971; Zimmerman, 1971; Weick, 1976; March & Olsen, 1976).

Integrating this perspective with a concept of "structure as a framework of the organization" Bourdeieu (1971,1977,1979) and Giddens, (1976,1977) introduced a new perspective, which is called

“interpenetration of framework”. It is concerned with “interaction as expressing a relationship that is often manually constituting and constitutive”. (Ranson, Hinings & Greenwood, 1980: 1-17). This framework explains when an organization member can/construct structures.

1. If organizational members revise the provinces of meaning, (incorporate interpretive schemes), which underpin their constitutive structuring of organizations.
2. Structural changes can result from inconsistencies and contradictions between the purposive values and interests that lie behind the strategic implementing and warranting of structural features.
3. Because of the organizational ‘revolution’ significant changes in resource availability and in other key sources of organizational uncertainty can undermine the basis of dominant coalitions and permit the creation of new power dependencies.
4. Major situational changes such as size, technology and environment will constrain organizational members to adopt their structural arrangements.
5. Contradictory imperatives (power, structure, context) of situational constraints will entail change in structural arrangements. (Jarvie, 1972; Brown, 1978; Gree Wood & Hinings, 1976; Child, 1977).

Thus, it is evidence that, many scholars have identified different dimensions and types of organizational structures. However, three dimensions of structure; centralization, formalization and complexity are widely accepted. (Hage & Aiken, 1967; Child, 1974; Van de Ven, 1976; Ford & Slocum, 1977; Hall, 1977; Fry, 1982). These three dimensions have appeared to be more important to making strategic decisions. (Pathasarthi & Sethi, 1986:539-560).

Centralization highly affects strategic decision making. (Hall, 1977; Fry & Slocum, 1984). The degree of formalization describes how organizations use rules and procedures to control organizational activities. (Hage & Aiken, 1969; Hall, 1977). Complexity explains the condition of being composed of interrelated parts. Lawrence & Larsch, (1967) described that high levels of complexity make it difficult to coordinate and control decision activities. (Egelhoff 1982:435-450). These arguments show that these three dimensions have affected strategic decision-making.

## **Strategy**

*“Strategy includes the determination and evaluation of alternative paths to achieve an organization's objective and mission and eventually, a choice of the alternative that is to be adopted”.* Byars, (1984:122) and Bartol & Martin, (1993:168) defined strategies as *“large scale action plans for interacting with the environment in order to achieve long-term goals”.* *“A strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization”.* (Bateman & Zeithamal 1990: 179).

These definitions emphasize that strategy is a preplan, which is essential to achieve organizational goals. Many scholars identified many types of strategies. Among them, stable growth, growth, mergers, joint ventures, harvesting retrenchment and globalization strategies is widely used by organizations.

## **Strategy Formulation**

To achieve better performance from the organization, managers very often design strategies. Organizations are not in a vacuum. To survive and to compete in a competitive environment, it has to be changed. These changes have an impact on an organization in either one of two ways:

- (a). by providing it with new growth opportunities, or
- (b). by bringing in threats to the organization's existing business. These changes can come up from internal as well as external sources.

According to the literature, there are two different perspectives to formulate strategy. One approach is the “out side-in and top-down” process. In this process, strategy formulation starts at the top management level with a systematic assessment of the socio-economic environment to identify opportunities and threats and arrive at broad strategy choices. (Lorange & Vancil, 1977; Paine & Naumes, 1978; Hrebiniak & Toyle, 1984; Thompson, 1967). (Pathasarthy & Sethi 1992:86-111).

In this process, each lower level manager is more concerned about strategy implementation than formulation. In other words, the direction of influence is assumed to move down to a lower level. Thompson, (1967) says that, to meet the external threats the existing structure can be modified. (Kimberly, 1976:573).

The second approach is called the “bottom-up and inside-out” process. Strategy formulation in this approach occurs in an evolutionary manner based on internal decisions and external events. The logic behind this approach is that management occurs within a dynamic context (Lindblom, 1959) and incremental approach (Quinn, 1980). An implication of this approach is that a firm’s existing operational and administrative mechanism (technology and structure) will have significant influence over the selection of future strategy choices. Many researchers dealt with this influence of structure on strategy. (Bower, 1970, 1975; Burgelman, 1983). Also, both structure and technology have been viewed more as constraints than as facilities in the strategy-formulation process. (Hrebiniak & Joyce, 1984; Szilagyi & Wallace, 1983; Fredrickson, 1986).

## **A CONCEPTUAL FRAMWORK**

The most crucial problem in this review is answering the following questions. What is the causal relationship between strategy and structure? Does strategy determine structure? Does structure determine strategy? Are they interrelated simultaneously? Or perhaps more fundamentally, are these even the right questions to ask?

The answers of these questions depend on the above mentioned literature review and methodology. The literature review indicates that scholars do not pay much attention to develop causal relationship for these two variables. Strategy and its relation to structure are discussed primarily based on different perspectives. While one study concerns an ecological-population perspective another group of studies concerns an information processing perspective.

The main objective of this study is to fill this gap and develop a conceptual framework, which tries to answer the questions. The studies, which have been reviewed, indicate that strategy always influences to make structure. Other than strategy many scholars identified other determinants such as technology, size, power control and environment. Some of the scholars argue that, strategy depends on existing technology and environment while strategy affects organization size and power control.

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There is no argument that the first structure of any organization is informal and influences to make organizational goals and ultimately strategies to achieve those goals. The dilemma is why do structuralists omit this part from their argument?

According to the literature it was proved that it is very often strategy that causes to change the structure. However, some scholars argue that some kinds of structures can cause to change the strategy. Considering all of these arguments, this study has proposed a conceptual framework, which is presented in Figure 1. It is basically defines "the relationship between strategy and structure". Table 1 indicates some ways of classification of scholarly arguments of this phenomenon. No one out of these studies is developed causal relationships between strategy and structure.

Many authors argued that strategy is an important factor to determine structure. Current research however also reflects other factors, which can affect the strategy structure relationship. Another structural characteristic is a component of organizational context, Hinings and Lee, (1971); Child, (1973) or environment Hickson et.al, (1974) or as an inhibitor of social integration, Blau (1972). It is seen as a consequence of organizational goals, Hinings & Foster, (1973), Size, Hummon, Doreian, Teuter, (1975) or a combination of environmental technological and structural factors, Aldrich, (1972).Khandwalla, (1974); Pfeffer & Lelibic, (1973) have proposed an integration between size, technology and environment.

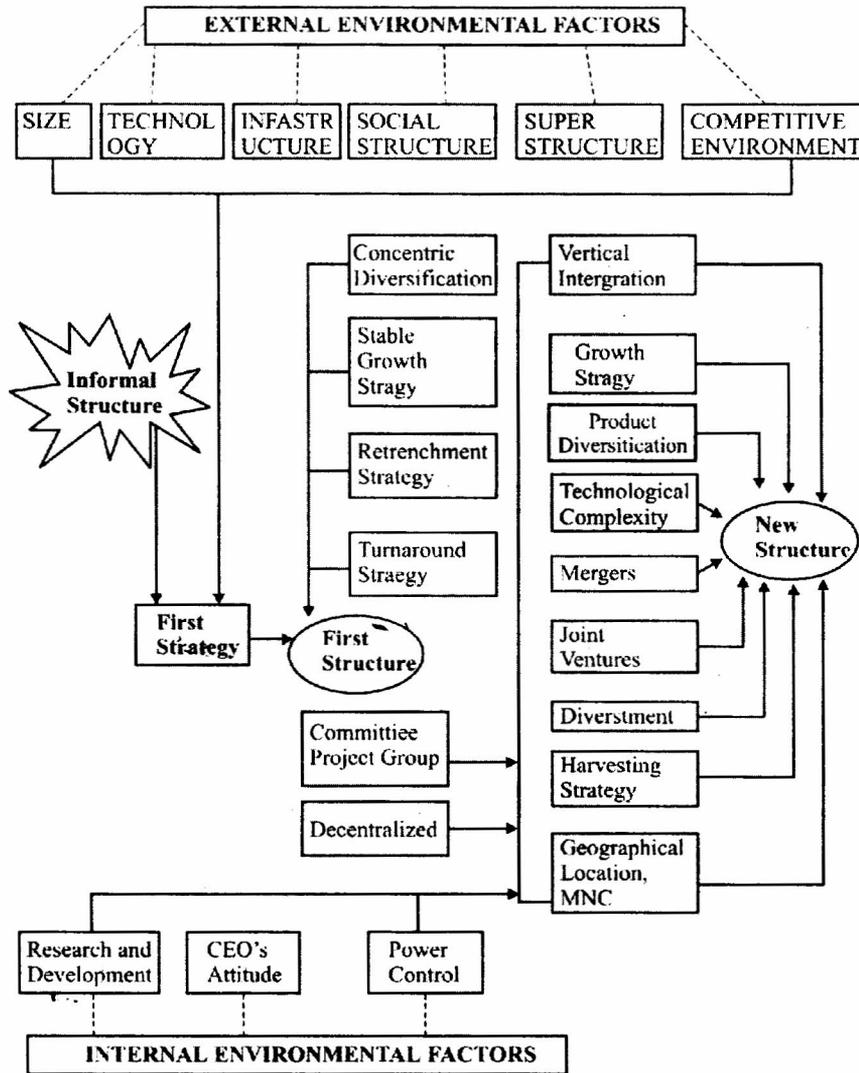
The literature therefore puts forward many arguments for this structure-strategy relationship. However, most of these studies focus only on one aspect at a time. This paper tries to synthesise and integrate these arguments to develop a new conceptual framework to get more understanding about this phenomenon. It will try to find solutions to the problems. However, still the problem is very much open to debate.

**Table -1**

**Classification of the reviewed literature**

<b><u>Strategy First</u></b>	<b><u>Some Strategy First</u></b>	<b><u>Strategy as a Mediator</u></b> <b><u>Population Ecology</u></b> <b><u>Perspective</u></b>
Ronnelli, 89 Keelys, 97 Troy, 94 Rphael 93	Chandler, 62 Wrigley, 70 Paven, 72 Channon, 73 Rumelt, 74 Dyas & Thanheiser, 76 Grinyer, Yasai- Ardckani & Albazzaz, 80	Aldrich & Pfeffer, 76 Hannan & Freeman, 77 Pfeffer & Salancik, 78 Atdrich, 79 Child, 72 Mintzberg, 79
<b><u>Information Processing Perspective</u></b> Burns & Stalker, 61 Landsberger, 61 Albaum, 64 Thompson, 66, 67 Lawrence & Lorsch, 67 Aguilar, 67 Galbraith, 69, 73, 77 Duncan, 73 Van de Ven, Delbecq Se Koenig 76 Scharpf, 77 Galbraith, 77 Tushman & Nadler, 78 Turshman, 78 Mintzberg, 79		<b><u>Foreign Operations</u></b> Brooke & Rummars, 70 Stopford & Wells, 72 Franko, 76 Hulbert & Brandt, 80 Fouraker & Stopfor4 68
<b><u>Product Change</u></b> Burns& Stalker, 61 Emery & Trist, 65 Lawrence & Lorsch, 67		<b><u>Product Modification</u></b> Woodward, 65 Perrow, 67 Harvey, 68
		<b><u>Product Diversity</u></b> Chandler, 62 Brook & Remmers, 70 Stopford & Wells, 72 Franko, 76 Lawrence & Lorsch, 67 Galbraith, 77

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## STRATEGY AND STRUCTURE RELATIONSHIP

There are many different perspectives described in the literature. This part is going to synthesize all those propositions.

### STRUCTURE FOLLOWS STRATEGY

Many classical theorists have argued that the relationship between structure and strategy was recursive. The main theoretical underpinning in this regard is that to implement strategies successfully, it needs a more appropriate structure. (Bateman & Zeithamal, 1990: 196). Chandler (1962) mentioned that a new structure was adopted only after a change in strategy. Many scholars followed this proposition and finally "Structure Follows Strategy" proposition becomes a world wide accepted proposition.

This proposition implies that the division of work, allocation of resources, and their subsequent integration work together in order to maximize performance on the organization's strategic choice. Strategy is thus a determinant of structure as well.

According to this proposition, if new strategy is introduced into the organization, it will lead to develop a new structure. Chandler's proposition however covers the "Growth Strategy". (Lawrence & Stopford, 1968). Chandler's three types of structure have indicated that growth is the important factor to gradually move one type to another. Type I is generally limited to a single production line while the type II function is limited to one or few related product lines. Type III has more production lines. Thus, the complexity of organization will lead to develop new structure. Many scholars have supported this proposition such as Wrigley, (1970); Paven, (1972); Channon, (1973); Rumelt, (1974); Dyas & Thanheiser, (1976); & Grinyer, Tasai-Ardckani & Albazzaz, (1980); Ronneli, (1989); Keeys, (1997); Troy, (1994); and Rphael, (1993). (Egelhoff, 1982:435-458).

***H1: The growth strategy will tend to affect the redesign of its existing structure.***

However, different types of growth strategies act in different ways. The next hypotheses has been developed considering those growth strategies.

### **Stable Growth Strategy**

Organizations, who use stable growth strategy, are always satisfied with its past performance and decide to continue to pursue the similar objectives. (Byars, 1984:79). This is relatively low-risk strategy and is quite effective for successful organizations in a volatile environment. According to the stable growth strategy, it is not needed to change the resource allocation system. The organizations, that are considered in this strategy generally, concern one product or service. They increase their market very slowly.

**H2: *Organizations, which following the stable growth strategy do not need to change its existing structure.***

### **Concentric Diversification**

Concentric diversification is a growth strategy, which involves adding new products or services that are similar to the organization's products or services. (Byars,1984:84). In order to apply this concept properly, the products or services that are added must lie within the organization's know-how and experience in technology, product line, distribution channels or customer base. Therefore it does not need to change the organizational structure.

**H3: *Concentric diversification does not affect change in the existing organizational structure.***

### **Vertical Integration**

This strategy is divided into two types of extending an organization's present business. One is forward integration other is backward integration. Forward integration moves into its own distribution channel and backward integration involves moving an organization into supplying some or all of the products or services that are producing its present products or services. To implement this strategy properly organizations need to add new departments or sections. Thus, both types of vertical integration will lead to change in the existing structure services. (Byars, 1984:84-85).

**H4: *Vertical Integration will lead to adding new sections to the existing structure.***

### **Conglomerate Diversification**

This is another type of growth strategy, which involves adding new products or services. But those are significantly different from the organization's present products or services. (Byars, 1984:88). Therefore it is essential to add new sections to the organization. Functional division also might be changed as a result of product diversification. New marketing division or new branches can be added to the organization.

**H5: *Conglomerate diversification will generate new sections to the structure and change the existing structure.***

### **Product Diversity**

Numerous studies have confirmed the importance of product diversity to the choice of appropriate new structure. (Chandler, 1962; Lawrence & Lorsch, 1967; Brook & Remmers, 1970; Stopford & Wells, 1972; Franko, 1976 & Galbraith, 1977). As product diversity increases, there is an increase in both market diversity and manufacturing and technological diversity. Consequently, it is needed to develop new structures to implement these changes properly. (Egelhoff, 1982; Fredrickson, 1986).

**H6: *The product diversity strategy will lead to change in manufacturing and technological systems and ultimate results will be the development of new structure.***

### **Technological Complexity**

Technological complexity will lead to develop new structures. Because, as a result of technological complexity there is a great need for new production processes to adjust to the situation. (Lawrence & Lorsch, 1967; Galbraith, 1973). The new process provides the most suitable relationship for new diversification. If new product lines are introduced in an organization, it is needed to provide new insights to the structure to face the complexity of the production process.

**H7: *Technological complexity will lead to provide a new insight to the existing structure.***

### **Product Modification**

Product modification is another type of product diversification. Woodward,(1965) explained this kind of product and process modification with unit or batch production systems. Harvey, (1968) explained this with technological changes and Perrow, (1967) with task variability. All found that this kind of modification led to more decentralized decision-making and communication patterns. The argument behind this is a single product can be made at a single point with centralized knowledge, while for modification it is needed to take more support from the bottom, which will lead to decentralization of the structure. (Robbins, 1990; Fredrickson, 1986).

**H8: *Product modification will be lead to change the decision making process of the organization through centralized to more decentralized structure.***

### **Mergers**

This method frequently is used to combine two organizations and to develop new organizations. Organizations can merge in numerous ways. One organization can buy another one or two organizations can combine and form a new one etc. These combinations always add new parts to the existing system or totally develop a new system. (Byars, 1984; Augustine, 1997).

**H9: *Mergers always lead to develop new structure.***

### **Joint Ventures**

A joint venture is a separate corporate entity jointly owned by two or more parent organizations. Joint ventures can take place between organizations within national boundaries or between private enterprises and government or not-for-profit organizations. Another frequent form of joint ventures takes place between organizations in different countries. All of these types of joint ventures always make new structures. (Byars, 1984:93).

**H10: *Joint ventures will develop a new structure.***

### **Harvesting Strategies**

Harvesting Strategies involve reducing the investment in a particular area of an organization, either a strategic business unit, division, product line, specific product or brand with the purpose of cutting costs and improving cash flow. This strategy tries to change marketing strategies to achieve market leadership or compete properly with rivals. This will not lead to change the existing strategies. (Byars, 1984:95).

**H11: *Harvesting strategy that will lead to change market share will not affect change the organization's existing structure.***

### **Turnaround Strategy**

Turnaround strategy is an attempt to improve efficiency of operations during a decline in an organization's financial situation. Higher wages, strikes, competitive pressures and management problems are some of the financial problems. To overcome these problems the following tactics can be used.

- Change management, personnel
- Cut back on capital expenditure
- Cutback on recruiting
- Reduce advertising costs etc.

These tactics do not involve changing the overall structure of the organizations. (Byars, 1984:97).

**H12: *Turnaround strategy will not need to be practiced through new structure.***

### **Divestment Strategy**

Divestment is a frequently used strategy when either harvesting or turnaround strategies are not successful. Divestment involves selling off major parts of the business, which can be a business unit, production line or division, which will lead to shrink organizational structure. (Byars, 1984: 98).

**H13: *Divestment strategy will be effect reduction existing sections of the organizational structure.***

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### **Foreign Operations**

In their study of United States Multi National Corporation's (MNC's) Stopford and Wells, (1972) it was found that as the percentage of foreign sales in a company increased, there was a tendency for MNC's to implement international division structures and adopt a geographical region structure. When increasing the foreign operations, the modification of the structure is essential. (Brooke & Rummers, 1970; Stopford & Wells, 1972; Franko, 1976; Hulberl & Brandt, 1980; and Fouraker & Stopfrod, 1968).

**H14:** *Large-scale organizations, that implement international division, will tend to have developed new structures including regional/ international functions.*

### **Product Change**

Researchers have generally found that totally changing the existing product and process require a new organizational structure. (Burns & Stalker, 1961; Emery & Trist, 1965; Lawrence & Lorsch, 1967). The structure should readjust to implement new strategy.

**H15:** *The changes of product will be affected to the creation of new structure for more appropriate strategic implementation.*

## **STRATEGY FOLLOWS STRUCTURE**

The second main argument is that “strategy follows structure”. Under this proposition there are many arguments as described below.

### **Bottom-Up and Inside-Out**

This approach is called the "Bottom-Up And Inside-Out" process. The logic behind this approach is that management occurs within a dynamic context (Lindblom, 1959) and incremental approach (Quinn, 1980). An implication of this approach is that a firm's existing structure will have significantly influenced over the selection of future strategy choices. Also, structure has been viewed more as constraints than as

facilities in the strategy-formulation process. (Hrebiniak & Joyce, 1984; Szilagyi & Wallace, 1983).

**H 16: *Organizations, which are in a dynamic and incremental environment, will change their strategies by influencing their bottom level personnel.***

### **Structure Constrains Strategic Choice**

The major argument in this regard is that, once a strategy is in place it will influence a firm's strategic decision process and ultimately strategy. Many scholars such as Bower, (1970); Bobbitt & Ford, (1980); Duncan, (1979); Hedbery, Nystrom & Starbuck, (1976); Jelinek, (1977) have followed the proposition "Structure Constrains Strategic Choice".

The main argument behind this proposition is "**Bounded Rationality**". (March & Simon, 1958). They argued that cognitive limitations of organizational members allow organizations to make more rational decisions by decentralizing their decision making process. Bower's, (1970) said that " *when management chooses a particular organizational form, it is providing not only a framework for current operations but also the channels along which strategic information will flow* ".

This proposition therefore is based on strategic choice. The strategy in any organization generally depends on information. It needs a wide range of people and expertise at different levels. (Carter, 1971; Crozier, 1964).

However, numerous authors Crozier, (1964); Mintzberg, (1979); Simon, (1976); Thompson, (1967), agree that strategic decisions of many small organizations depend on one individual.

**H 17: *Because of bounded rationality organizations will prefer to make strategic decisions using information, which is gathered from the bottom level.***

The second argument is that many organizations make strategic decisions based on specific task forces such as committees or project

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teams. (Thompson, 1967) or nominal groups (Delbecq, Van de Ven & Gustafson, 1975). The strategic choice therefore depends on these groups, which are part of the organizational structure.

**H 18:** *Strategic decisions is an organization depend on specific task forces, committees or project teams, which are part of the existing organizational structure.*

### **STRUCTURE AS AN INFORMATION PROCESSING UNIT**

The information processing approach is another and important perspective, which helps as a framework for describing and better understanding critical fits between strategy and organizational structure. Information processing was described as data gathering, transforming into information and communication and storage of information in the organization. (Galbraith, 1973; Tushman & Nadler, 1978). The pioneer of this perspective was Thompson (1967) and later more elaborately developed by Galbraith, (1969, 1973, 1977) and Tushman & Nadler (1978).

A number of empirical studies have used some form of information processing approach. (Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Duncan, 1972; Van de Ven, Delbecq and Koenig, 1976; Galbraith, 1977; Tushman, 1978). The two types of information processes; company and country matters and product matters affect the making of strategic and technical decisions. There is considerable empirical evidence that organizational structure has been strongly influenced by these information flows in an organizations to make strategic decisions. (Aguilar, 1967; Brooke & Rammers, 1970; Galbraith, 1977; and Scharpt, 1977).

These studies show that the organizational structure acts to constrain and channel information flows to follow the advisory role expressed by a particular structure. Consequently, it leads to change the strategy. He further explained that this product diversification strategy causes many problems within the organization and it will lead to change structure. Electrical, automobile (transportation), power machinery and chemicals are some of the industries coming under this category.

**H19:** *The information processing has helped to implement organizational strategy more accurately and fit to its environment.*

## **STRATEGY AS A MEDIATOR**

Recently another proposition has been used to explain strategy as a medium actor of the structure and the environment. This perspective called the "population-ecology". (Aldrich & Pfeffer, 1976; Hannan & Freeman, 1977; Pfeffer & Salancik, 1978; and Aldrich, 1979). It provides general understanding of the association between organizational structure and the contextual factors that make up an organizational environment. It further suggests that if association is 'good' it means that the organization's structure is well suited to its environment. The strategy of the organization acts as a median force of the environment and it reflects the most critical elements of that environment. (Child, 1972; and Mintzberg, 1979).

**H 20:** *Strategy acts as a mediator to select better structures, which might be more suitable to its existing environment.*

## **PSYCHOLOGICAL FACTORS AFFECTING TO STRUCTURE THROUGH STRATEGY**

Another perspective of changing structure through strategy is the CEO's psychological factors. Researchers argue from this viewpoint that there are certain preferences, goals and interpersonal styles possessed by CEOs that influence to select suitable strategy to the organization, indeed to the structure. (Coffins & Moore, 1970; Miller, Kets De Vries & Toulouse, 1982; Miller, Kets De Vries, 1984; Millar, Toulouse & Belanger, 1985; and Miller & Toulouse, 1986). It is no doubt that a CEOs in many organizations as a leader can have much impact.

Kets de Vries and Miller, (1984) on their study found that, modes of interaction, attitude toward regimentation, need for power control and information and other key behaviors can influence strategy and then affected structure. Another argument is that CEO's have a possibility to recruit select, and promote employees who are fit to the structure or some time with changing the structure. (Deat & Kennedy, 1982).

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**H 21: *CEO can influence to change the strategy, which then might lead to change structure.***

### **FIRST STRATEGY**

It is very difficult to find empirical evidence for how the first structure affected to set the first strategy. However, new firms in which new strategies and structures are being implemented very often depend on founders. First strategy thus reflects the goals and vision of those founders. (Kimberly, 1979). It was argued that those who involving making decisions are in informal structure.

**H 22: *Organizational first strategy determines founders who are in informal organizational structure.***

### **UNCERTAINTY**

Some of the studies explained that structure would be influenced by new strategies, which are changed as a result of environmental uncertainties. Burns & Stalker, (1961), Lawrence & Lorsch, (1967), Thompson, (1967) & Galbraith, (1973) have all supported this proposition. It is generally argued that increased uncertainty makes an administrative task more complex and non-routine. This, in turn, is said to require less formalized and more flexible structures (Burns & Stalker, 1961) a more complex and diverse array of departments and roles (Lawrence and Lorsch, 1967). Galbraith, (1973) cited more intensive face-to-face liaison devices to promote collaboration and resolve differences and Burns and Stalker, (1961) explained more power delegated to lower-level managers who specialized in certain complex tasks.

### **CONCLUSION**

There are three important points, which should be stressed in conclusion. Firstly, structure-strategy relationship, secondly, nature of strategy and finally, other factors affected the determination of the structure as well as how strategy acts as a mediator.

The assumption made at the beginning of the paper is that strategy and structure affect each other simultaneously. It shows that there are numerous arguments to support to this proposition. Some make arguments

that structure follows strategy and others emphasize that sometimes structure could influence the strategy. The second point that has been highlighted by the study is the nature of strategy. It shows that some kinds of strategy lead to change the structure while some do not. Thus the phenomenon depends on the nature of strategy too.

It has also been discovered that many other factors like size, technology, power control, affect structure as well as strategy at different levels and different degrees. Finally, it is needed to mention that strategy sometimes acts as a mediator to develop more suitable structures to the organization. The conceptualization of these arguments is a first step of the long process. The empirical survey is needed to test those hypotheses to check whether those are proved or not.

Even though the evidence does exist, however, to say with confidence that chosen strategy cannot be effectively implemented without developing a sound organizational structure. On the other hand without knowledgeable personnel, choosing a strategy is also problematic. According to the Mintzberg, (1979) there are five kinds of personnel who act differently at difference times, and as a core under each of five configurations. They can influence to make the organizational decision making process. If that is so, as a part of the structure, personnel who are in organizations determine the strategy or determine strategy that affect better organizational structure? Or, are both affecting each other simultaneously? The problem is still debatable.

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