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The contentious debate by management scholars and researchers on whether strategy influences structure or if it is structure that influences strategy has been going on for some time now. We endeavored to conduct an extensive desk review aimed at establishing if indeed there is any interrelationship between organizational structure and diversification strategy or if organization structure does influence diversification strategy and performance of an organization. Different subsections of this paper present theoretical and in some instances empirical findings by other scholars and researchers on theories relating to organization structure, diversification strategy and organizational performance. From the discussed theories and research findings, the paper concludes that there exists an interdependent relationship between organization structure and diversification strategy which ultimately impacts on the performance of an organization.

Key words: Organization structure, diversification strategy, performance.

INTRODUCTION

Corporate strategies are central themes in research and other management scholarly work as major variables that influence organizational performance (Mintzberg, Ahistrand and Lampel, 2009; Jones and Hill, 2010). In order to match up with environmental changes, Chakravarthy (1982) contends that organizations must adopt an optimum innovative organizational structure that leads to superior performance. However, Mansoor et al. (2012) observe that while organizational structure has been a central subject in several researches, its impact on organizational performance has somewhat been ignored.

Different organizations continue adopting various forms of diversification strategies for expansion and growth, Shyne (1998) wonders if they could pursue continuous growth through diversification without eroding the already gained value, or if a combination of factors including structural designs limit organizations to some optimal level of performance. Shyne, further, questions how managers could redesign diversified organizations in order to easily exploit potential synergy and other benefits and avoid managerial conflicts.

As already observed by Middlewood and Lumby (1998), to enhance performance, managers must apply best management practices, techniques and principles that have been researched, interrogated and tested. This paper agrees with Middlewood and Lumby (1998) that there is, indeed, limited literature in place regarding diversification as an expansion strategy and how structure influences its relationship with performance. The paper, therefore, seeks to make a contribution by providing some theoretical insights on the influence of structure on diversification strategy and organizational performance.

Literature review

Mintzberg (1979, 2009) defines organization structure as the sum total of ways in which a given organization
divides its labor into separate tasks and achieves coordination among them. Other scholars view organization structure as the way responsibility and power are allocated inside an organization and work procedures done by employees and other members of the same organization (Gerwin and Kolodyny, 1992). Organization structure defines the location of power and authority within the organization (Mintzberg, 1979; Porter, 1996; Galbraith et al., 2002).

Chandler (1962) and Mintzberg (1994) define strategy as the determination of basic long-term goals and objectives of an organization, and the adoption of courses of action and allocation of resources necessary for carrying out these goals. Strickland, Thompson and Gamble (2010), view strategy as management’s action plan for running the business and conducting operations. It is all about how the management intends to grow the business, build a loyal clientele and outcompete rivals and boost performance (Jones and Hill, 2010; Strickland et al., 2010).

According to Allen and Amaud (2007), diversification is doing something new from the usual focus. It involves increasing the range of products or market by an organization (Johnson, Whittington, and Scholes, 2011). Varghese and Puttman (2011) view diversification as the process by which a system becomes more varied or diverse in its orientation and operation.

Performance in an organization context refers to the quality of process or end product with both quantity or quality considerations (Postma and Zwart, 2001; Divinney et al., 2010). An Organization’s success as a positive performance indicator refers to the attainment of the expected results, outcomes, or realization of the set objectives and hence the satisfaction of organizational stakeholders.

**Theories on organizational structure and management**

As already discussed, Organization structure is the way responsibility and power is allocated inside an organization and the work procedures by employees and members of a given organization (Gerwin and Kolodyny, 1992; Germain, 1996). Different theories advanced by scholars seem to agree on the basic elements of organizational structure as being hierarchy, authority, division of labor and procedure (Johnston, 2000; Robbins, 1990). Scholars of organizational structure postulate that the basic theory on organizational structure is that it divides tasks and ensures coordination, it trades off specialization and integration and provides basis for either centralization or decentralization.

Some of the advanced theories on organization structure include the classical, human relations, systems and contingency theories (Robbins, 1990). The classical theory emphasizes on purpose, formal structure, hierarchy of management and technical know-how.

The human relations theory attaches more attention to social factors at work, groups, leadership, the informal organization, and behavior of people. The Systems Theory advances the integration of the classical and the human relations approaches and their core focus. Finally the Contingency Theory postulates that no one design of organization structure is best and ideal. Proponents of this theory argue that the success of an organizational structure and management systems is dependent on a range of situational variables (Ricucci, 2005). These theories, including the classical, the human relations the systems and contingency theory have informed contemporary concepts revolving around structure and its influences on organizational elements over time. Despite the difference in their emphasis, all the four theories seem to agree on basic features of an organization structure and how it relates to organizational strategy.

Contingency theory has received much attention from scholars and management practitioners as a guide on organization structural alignments. This theory is advanced by Chandler (1962), and Donaldson (1987) who contend that contingencies either within or outside the organization give rise to pressures to which the organization's structure must adapt. For instance, the strategy adopted by an organization, the size of an organization, rate of technological change are factors either intra or outside the organization that are likely to influence an organization on the nature of structure to adapt. The attempt for any organization to adjust its existing structural design is motivated by the imbalance or mismatch which must be aligned failure to which, there will be an impact on the performance of the organization. According to Donaldson (1987), a mismatch produces a dysfunction within the organization system which may include; slow and poor quality decision making, miscommunication and de-motivation of employees.

**Forms of organization structure**

**Mintzberg’s five basic structures**

Mintzberg (1979, 2009) views an organization structure as being composed of five primary parts which are; strategic apex, middle line, operating core, techno structure, and support staff. According to him, the strategic apex constitutes the top management, the operative core are the workers who carry out the tasks, the middle line refers to the lower level management, the techno structure are the experts or analysts in their fields and finally the support staff are those who provide indirect services.

Mintzberg (1979) further contends that depending on the kind of strategy an organization adopts and the extent of practice, the strategy result into five different structural configurations which he states as; simple structure, machine bureaucracy, professional bureaucracy, divisionalised form, and adhocracy.

Functional structure groups departments within an
organization by the functions performed and the specialization of tasks dictate the hierarchy of authority in such an organization (Hatch, 1997). According to Peters (1993), a functional structure based on division by specialization is the most common organization design. In this form of structure, teams are created and separated on the basis of common functions in a bottom-up manner. The final result for example in universities are distinct departments like finance department, department of business studies, department of research among others. All these units are controlled and coordinated from the top level management while having departmental heads or supervisors in place. In a functional structure, the line of authority is clearly defined and therefore directives originate from a centralized point and communicated through supervisors or heads of various departments to the rest of employees (Stokes, 2005; Lunenburg, 2011).

Peters (1993) postulates that a functional structure is highly hierarchical hence exhibiting characteristics of a hierarchical structure. This form of structure has been criticized on the basis that the separation does not foster communication but instead it may inhibit communication between the central management, supervisors and other departmental employees leading to complex and slow decision making process (Hatch, 1997). Other weaknesses of a functional structure include; slow response to change and that it may take too long to make decisions because of the hierarchy considerations by various managers (Daft, 1998).

A matrix structure refers to an organization design that employs a multiple command system which includes related support mechanisms and associated organizational culture and behavior patterns (Davis and Lawrence, 1977). This type of organizational structure blends more than one type of structural design. For instance it can combine a functional and divisional type of structures and it reflects both centralized and decentralized tendencies. According to Daft (1998), a matrix structure thrives in an unstable environment. Various advantages attributed to a matrix type of organizational structure include; efficient exchange of information as a result of departments working closely and communicating to each other, accommodates complex decisions and frequent changes in unstable environment, it recognizes and provides mechanisms for dealing with legitimate multiple sources of power in an organization (Saracoglu, 2009). Besides enabling an organization to respond to various demands, a matrix type of structure also allows for easy adaptation of the organization to changing environment (Burn, 1989). Other scholars argue that a matrix type of structure can lead to increased motivation by employees as they are able to make their contributions before a decision is made (Daft, 1998). While a matrix type of structure seem to be preferred by large organizations, some scholars have criticized it on grounds that it may cause internal complexity as employees may not be able to appreciate who their immediate supervisor is. Further, the multiple centers of authority and communication may bring about division among employees or among the management (Burn, 1989; Saracoglu, 2009).

Centralized and decentralized forms of structure
Centralization refers to the degree to which the right to make decisions and evaluate activities is concentrated on the top hierarchy levels of an organization (Hall, 1977). According to Dave, Rob, Harris, and Coles (2000), centralization means keeping major responsibilities with sections or units of the central headquarters or at the core of the organization. In Organizations with centralized form of structure, power is controlled by the top management (Porter, 1996; Chen and Hung, 2007). A centralized form of organizational structure creates an environment that hinders communication, commitment, and limited participation of other members of the organization hence causing inefficiency in decision making (Chen and Hung, 2007). However other scholars view centralization as having a positive impact to an organization. For instance Ambrose and Cropanzano (2000) argue that some employees are more comfortable when their manager has the power to give instructions and make decisions. These scholars further postulate that if an organization is operating in a stable environment, centralization may result to improved efficiency. Another advantage of centralization is enhancing the organization’s ability to control operations and provide standard and uniform policies, procedures and practices within the organization. However, critics of a centralized organization structure especially in large organizations argue that a high degree of centralization would result into inefficiency as actions or proposals would have to be approved from the head office or cleared by the central top management (Ambrose and Cropanzano, 2000; Chen and Hung, 2007).

Decentralization on the other hand describes a situation in which many specific responsibilities have been delegated to branches or away from the centre (Dave, Rob, Harris, and Coles, 2000). According to Lunenburg (2011), decentralization is the extent to which the organization's top management involves subordinates in the decision- making process. In a decentralized form of structure, the span of control by top managers is small and so are tiers within the organization and more autonomy accorded lower ranks.

Lunenburg (2011) presents three types of decentralization; Vertical decentralization which is the distribution of power down the chain of command, horizontal decentralization which refers to the extent to which non administrators make decisions or shared authority between line and staff, and selective decentralization which refers to the extent to which decision-making power is delegated to different units.
within the organization. Stokes (2005) observes that more complex organizations are generally more decentralized and require more communication and employee involvement. Other reasons why an organization may choose to decentralize its organizational structure include: allowing faster decision making and better adaptability to local prevailing conditions, when there exists scenarios in which not all situations can be understood in depth by the small number of people at the top of the organization, situations in which information is complex, varied and specialized and when it may be difficult to transfer accurately from the edges to the top of the organization and when decentralization facilitates swift response to the local needs and conditions. Dave et al. (2000) distinguishes between two forms of decentralization which includes; vertical and horizontal decentralization. In their explanation, vertical decentralization exits when decision making authority is pushed down through the layers of the organization so that several layers of management and supervisors are allowed to make decisions. On the other hand, horizontal decentralization occurs when decision making authority is pushed sideways across an organization. Factors that Influence the Choice of Organizational Structure

Some of the factors that determine or influence the choice of organizational structure are; technology, Organizational size, environment and management objectives (Chandler, 1962; Robbins, 1990, Burton and Obel 1998; Johnston, 2000). Burton and Obel (1998) define technology as the information, equipment, techniques, and processes required to transform inputs to outputs. According to Lam (2010), the introduction of new technology often presents complex opportunities and challenges for organizations, leading to changes in managerial practices and emergence of new organizational forms. As organizations shift from one technology to another, the demand for rigid or flexible changes arise hence the need to readjust their structure accordingly. For instance the technology may demand more corporation between given units as routine technology is positively related to low complexity and formalization while it is positively related to centralization if formalization is low (Robins, 1990).

Culture is considered to influence the nature of structure adopted by an organization. Schein (1997) defines organizational culture as a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered as the correct way to organize, perceive, think, and feel in relation to those problems. Hofstede (2005) lists the characteristics of organizational culture as holistic, historically influenced, socially constructed, soft and relatively stable.

Organization size influences structure given that as an organization keeps expanding and growing through diversification, both the opportunity and need for division and coordination arises (Oyedijo, 2012). Other scholars including Miller and Toulouse (1986) indicate that complexity and formalization are positively related to size while centralization yields mixed findings.

Robbins (1990) points out that the nature of environment and forces at play are also influential considerations in determining the nature of organizational structure to be adopted by an organization. For instance hostility, equivocality and unpredictability in the environment will considerably influence the structure given that it will determine the organization's ability to respond or adapt to these prevailing circumstances (Miller and Friesen, 1980).

According to Jones (1998), when organizational goals are established and clearly defined, organization structure inevitably evolves. Etzionni (1964) notes that while combining various resources including personnel and material, the organization evaluates its performance against its goals and adjusts accordingly in order to attain the set goals. Organization structure relates to how job tasks are formally allocated and coordinated, establishing pattern of relationship between various components or parts of the organization in order to achieve the set goals and objectives. Goals and objectives are therefore the prime determinants of organization structure (Robbins, 1990).

DISCUSSION

There is a lot of literature reviewing the relationship between a firm's organizational structure (or ownership structure), diversification and its real activities, financial behaviors and performance. Management scholars agree that there exists a relationship between organizational structure, diversification as a strategy and organizational performance (Penrose, 1959; Thompson and Strickland, 2008; Mintzberg et al., 2009). Studies have shown that different organizational forms have their comparative advantages in differing scenarios. From his research findings, Oyedijo (2012) contributes to the debate on organizational structure, diversification and performance thus “diversification is positively associated with growth as an element of performance although growth in concentric businesses is faster than in unrelated diversified ones. Research findings indicate that performance for instance profitability increases with diversity but only to the limit of complexity (Grant, Jammie and Thomas, 1988). Klein and Lasse (2009) also share a similar perspective that a diversified organization in related portfolios might obtain efficiency advantages unavailable to a non-diversified organization or that with unrelated portfolios.

While there is a general agreement that diversification strategy is an avenue for growth and expansion, Wernerfelt and Montgomery (1988) assert that organizations can only diversify to such an extent where
potential synergistic benefits diminish to zero. This curvilinear kind of relationship between diversification and performance of organizations is also advanced by Penrose, (1959) who using a resource based view contends that diversified organizations stop expanding at a point where ‘excess productive services’ have been utilized and managerial diseconomies have begun to set in.

Results from the debate if structure follows strategy or vice-versa have shown that on one hand, strategy models organizational structure and on the other structural policies and procedures influences the strategy development and deployment (Chandler, 1962; Ansoff, 1965). Lam (2010) argues that strategy structure relationship can be approached from both cause and effect perspective. Chandler (1962) formed the basis of the structure follows strategy framework and showed that the need to reorganize or to “restructure” is triggered by a strategic shift. The choice of structure is vital to successful implementation of corporate strategy (Jones and Hill, 2010) and therefore, its bearing on performance cannot be underscored. Jones and Hill further state that an organization creates or acquires a structure that makes up the organization.

Other management scholars emphasize the need for balance or strategy structure alignment as a source of better performance or sometimes could give an organization a competitive advantage over its rivals (Miles and Snow, 1978; Donaldson, 1987; Galan and Sanchez, 2009). Following this logic therefore, one may as well assert that organizational structure and diversification strategy relationship influences the strategic position and performance of an organization.

As already discussed in this paper, there seem to be a general agreement among management scholars that there exists a reciprocal relationship between an organization’s strategy and its structure. This reciprocal relationship may have structure flowing from or following the selection of the organization’s strategy (Chandler, 1962; Lam, 2010). While organizations expand and grow through diversification, they become more complex hence the need to realign the organization structure for easy control and coordination (Walton, 1986). The likely success or otherwise of diversification strategy may be greatly dependent on and determined by the circumstances and management characteristics of an organization such as organization structure, size, and the institutional environment (Oyedjio, 2012).

In order to benefit from the potential synergistic advantages of diversification, an organization must have the coordination capacity to manage the interdependencies of different units (Hitt, Hoskisson, and Kim, 1997). For instance, an organization may opt to decentralize decision making in order to reduce communication cost and delay in decision making but this will limit growth as decisions will be made on individual basis thus lacking group synergistic input or global optimality (Patacconi, 2005; Mansoor et al., 2012). As diversified firms grow and expand in size and may be in their geographical distribution, they become more complex in structural forms sometimes to the extent of creating informational differentials and asymmetries between managers of divisions and headquarters (Wulf, 2009). This structural complexity leads to managerial diseconomies that make control very difficult leading to poor performance and sometimes eroding the gains of diversification on performance

CONCLUSION

Based on the reviewed literature in this paper, one could appreciate the complex nature of the causal effect interplay between organization structure, diversification strategy, and performance of an organization. As organizations pursue diversification strategy for growth and expansion, they become more complex in their structural forms, hence the need for structural realignment to facilitate coordination of interdependent functions. Considering the theories presented, some of the conclusions that could be drawn include; that strategy models organization structure while on the other hand structural policies and procedures influence the strategy development and execution hence impacting on the performance of an organization, an organization with good alignment of its structure and strategy is likely to experience better performance than that with discordance or imbalance between strategy and structure. For instance, organizational structure plays a critical role in determining the overall decision making process, hence influencing the general performance of the organization.

While this paper makes a contribution by discussing some of the existing theoretical and empirical findings on diversification strategy, organization structure and performance, the paper is limited to the extent that it is only a theoretical review and these conclusions are not based on empirical research findings. The paper therefore, recommends that a detailed empirical enquiry to investigate the influence of structure on diversification strategy and performance relationship oath to be done in order to confirm or disapprove the various conclusions drawn in this paper.

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