By Contribution

Strategy & Structural Dimensions – A Comparative Study of Four Industries

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This study examines the linkage between organization's strategy and structural dimensions. There are significant differences among the organizations in terms of structural dimensions and the strategy used. Prospector strategy is used more in the IT industry, analyzer strategy in the banking industry and reactor strategy in power industry. Vertical linkages and formalization are more used in the power sector, horizontal linkages in automobile sector, centralization in banking sector. When the organization uses reactor as dominant strategy, vertical linkages and formalization were perceived more. Horizontal linkages are more prevalent in the organization using prospector strategy and organizations using the analyzer strategy were found to be high on centralization.

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Introduction

Organization Structure is a dynamic element which can change over time as a consequence of new organizational and environmental conditions. It reflects the way in which information and knowledge are distributed within an organization and it substantially influences the distribution and coordination of the company's resources, the communication processes and the social interaction between organizational members (Chen & Huang, 2007). It can be frequently customized so that staff could have access to and acquire new and varied knowledge that would help them to overcome a range of problems, fluctuations and diverse situations (Lloria, 2007). Studies (e.g., Dodgson, 1993; Fiol & Lyles, 1985) also have suggested that structures have an influence on the organization's learning ability. Researchers further suggest that organizational personnel are meaningless unless some type of structure is used to assign people to tasks and connect the activities of different people or functions (Denison, 2000; Drucker, 1974).

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Organizational structure may obstruct or support the capacity of the organization to adapt, innovate or improve its ability to add value for its customers and to its performance. One of the purposes of the study was to understand the organizational strategy and structure in Indian organizations belonging to different industry segments. It also examines the relationship between strategy and structure. Although, there have been rich theoretical and empirical descriptions about structure and strategy (e.g., Schaffer & Litschert, 1990; Tse, 1991), this study intends to examine it further in the Indian context. The rationale behind are that the Indian culture is different from the western culture. Research suggests that when national and organizational cultures come into conflict, the national culture is likely to dominate (Hofstede, 1980; Pang et al., 1998).

Peters and Waterman (1982) and others reported that organizations in the United States (US) are influenced by national cultural values: there have been focus on open and honest communication and teamwork and staff are being empowered to make decisions (Mwaura et al., 1998). Hofstede (1980) found that in cultures with high power distance relationships, employees have limited expectations for participation in decision making. Given such cultural considerations, the findings pertaining to the relationships between strategic orientation, organization structure and performance may not apply in the Indian cultural context, as Indian culture has been rated high on power distance and also differ on other value dimensions from US culture.

Organizational Structure

Child (1972) defined organizational structure as "the formal allocation of work roles and the administrative mechanisms to control and integrate work activities including those which cross formal organizational boundaries". Daft (1998) stated that organization structure determines the formal reporting communications and represents the levels which exist in administrative hierarchy and also specifies the extent of the managers' control. The people's formal communications, job status in an organization, the extent of accessing information, job descriptions, resource allocation, rules and regulations, compliance and implementing the rules, co-ordination between the activities, depend on designing organizational structure (Ergenli et. al., 2007). To understand the organizational structure, number of structural dimensions has been identified in various studies. Among the many structural dimensions, formalization, integration, centralization and complexity are commonly used in describing structural characteristics.

Centralization is the degree to which employees are empowered to make decisions. When decisions are kept at the top, an organization is centralized,

whereas in decentralized organizations, decisions are delegated to lower organizational levels (Daft, 1998). Formalization can be defined as the extent to which an organization uses rules and procedures to prescribe behavior such as the details on how, where, and by whom tasks are to be performed (Fredrickson, 1986). In the organization with higher level of formality, there are many bureaucratic and rigid rules and set procedures, and little individual freedom of action (Ahmed, 1998).

Complexity describes many, usually interrelated, parts of an organization (Fredrickson, 1986). Structural integration refers to the coordination of activities among the different specializations within the firm (Miller, 1987). The more the complexity increase, higher is the need for structural integration in the organization which can be in the form of vertical or horizontal linkages. Vertical linkages are used to coordinate corporate activities between the top and the bottom of the organization. Top management controls planning, problem solving, decision-making and directing (Hyden, 1994; Hankinson, 1999). Horizontal linkages help to integrate the different functions, units and expertise in the organization.

These structural dimensions influence firms' ability to perform efficiently or effectively. Studies indicates that members in highly centralized organizations had less motivation to learn, and were less efficient and slower in making decisions (Duhaime & Schwenk, 1985; Slevin & Covin, 1995). An organization with higher degree of formalization and centralization may make it easy to avoid chaos, inconsistency, and duplicated efforts, especially within a large, complex organization (Adler, 1999). Chen et al., (2009) reported that formalization and centralization of organizational structure would affect staff's absorption capacity, and further affect organizational innovation performance.

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An innovative organization needs open channels of communication, decentralization and informal decision making, and flexibility in processes and procedures. Loosely coupled decision linkages and loosely identified job descriptions are conducive to greater entrepreneurial and innovative activity (Mintzberg, 1979). Azadegan, (2008) opined that an organization with lower centralization has better capabilities for organizational innovation. Chen and Chang (2012) reported that the higher the degree of organizational centralization, the lower the absorptive capacity of the organization, and then the lower the degree of organizational innovation.

Organizational Strategy

Organizational strategy can be defined as a plan for interacting with the competitive environments to achieve organizational goals (Daft, 1998). Through its strategy, an organization selects and

interprets its environment, and adapts its strategy to the requirements of the environment (Porter, 1985). Miles and Snow (1978) classified strategy types as defender, analyzer, prospector, and reactor. Defenders are internally oriented organizations. They stress efficiency, and are tightly organized firms focused on maintaining a niche with a limited range of products or services (Miles & Snow, 1978). They try to protect their markets through lower prices, high-quality, well-targeted products, and superior delivery while not often being at the forefront of industry developments. The prospectors have an external focus and assumes more business risk and attempt to be "first to market" with new products and services. These firms emphasize more in maintaining the image of an innovator in product terms than securing high profitability (McDaniel & Kolari, 1987). The structure of these firms is characterized by a low degree of formalization and routine, decentralization and lateral as well as vertical communication, emphasizing aspects such as innovation and flexibility.

Analyzers blend the characteristics of both the prospector and defender orientations (Miles & Snow, 1978). They are rarely first-in with new services or into new markets, but are often second-in with better offerings. The analyzer partitions its technology so that it can serve its stable domains with efficient technologies and its dynamic domains with flexible and effective technologies. They include flexibility as well as stability, adopting structures that can accommodate both stable and changing domains.

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Strategy & Structure

Why some organizations outperform others? The answer is grounded on the contingency perspective. It advocates that organizational structure follows from a firm's strategic choices in response to its environment and successful firm performance to some degree results from a proper fit between environment, strategy and structure (e.g., Chandler, 1962; Child, 1972). It provides a motivation for an organization in misfit to move into fit to gain the higher performance that fit produces (Burns & Stalker, 1961).

Porter (1980) claims that organizations require a high degree in all of the structural dimensions in order to implement generic strategies. Miller (1988) reported that integration and formalization are relevant for performance for specific strategic types. Zeffane (1989) reported that certain structural dimensions must be present with given strategies in order for the firm to achieve high performance level. All these indicate that a 'fit' or, alternatively, an interaction between strategy and structure is relevant

to performance, hence managers must design the organization correctly if it is to be effective for a particular strategy (Fiedler, 1984; Feghhi Farahmand, 2005).

Objectives of the Study

a) To examine the structural dimension of the Indian organizations belonging to different industry segments

b) To examine the strategy used by the Indian organizations belonging to different industry segments.

c) To examine the relationship between strategy and structure in the Indian context.

Hypotheses

H1:There are significant differences in the structural dimensions used by organizations from different industry segments.

H2:There are significant differences in the strategy used by used by organizations from different industry segments.

H3:Organizations following defender strategy are high on formalization, centralization and vertical linkages.

H4:Organizations following prospector strategy are high on both vertical and horizontal linkages.

H5:Organizations with analyzer strategy are high on centralization and horizontal linkages.

H6:Organizations following reactor strategy are high on centralization and formalization.

Methodology

Data were collected by means of questionnaires that were sent through electronic mail. Overall 1000 questionnaires were mailed, and 431 usable questionnaires were received, with response rate 43.1 percent of respondents. The respondents came from 16 organizations from four industries namely, Banking (34.2%), Information Technology (22.3%), Power (18.3%), and Automobile (20.3%). Those selected for the study are high performance organizations within their industry segment and represent a right mix of public, and private sectors.

The average age of participants was 34.08 years, average experience in current organization being 4.96 years. Only those employees were requested to respond to questionnaire who have minimum three years of experience with the present organization. With respect to the level of qualifications, 65 percent were graduates; and 35 per cent were postgraduates. Male respondents accounted for 70 percent and 30 percent were the females.

Banking: Banking in India has a long and detailed history of more than 200 years. It includes nationalized banks, private banks and specialized banking institutions. Nationalized banks are the biggest lenders in the country because of the size of the banks and the penetration of the network. According to a World Bank report, there are around 3.5 ATMs and less than seven bank branches per 100,000 people and there will be improvement in near future as the Government

aims to have maximum financial inclusion in the country. (http://www.ibef.org/industry/banking-india.aspx).

Information Technology: This is among the rapidly growing industries in India and has created a brand equity for itself in the global markets. According to the report by Confederation of Indian Industry (CII), India's IT-business process outsourcing (BPO) industry revenue is expected to cross US$ 225 billion mark by 2020. The report by Internet and Mobile Association of India (IAMAI) and IMRB International suggests that India is expected to become world's second-largest online community after China with 213 million internet users by December 2013 and 243 million by June 2014. All these reports suggest the potential of growth in this industry.

Power: India is the 5th largest power producer and one of the most diversified sectors in the world. The Planning Commission's 12th Plan projects that total domestic energy production would reach 669.6 million tons of oil equivalent (MTOE) by 2016–17 and 844 MTOE by 2021–22 (http://www.ibef.org/industry/infrastructure/power-sector-india.aspx).

Automobile: India is predicted to be among the world's top five auto-producers by 2015, with the increasing growth in demand with rising income, expanding middle class and young population base along with a large pool of skilled manpower and growing technology (http://www.ibef.org/industry/india-automobiles.aspx). Experts opine that in developed economies, automobile manufacturers buy more components and services from suppliers than they are used to and are increasingly relying on them to reduce costs, improve quality, and develop new processes and products faster than their rivals' can.

Measures

Business Strategy: A multi-item scale developed by Parnell (1997), based on the work of Conant et al. (1990) was used for operationalizing the Miles and Snow strategic typology. There were a total of 12 questions with each consisting of four statements, one for each possible strategy. Each respondent was required to indicate which statement is true for his/her organization. The twelve responses for each participant in each organization was used to classify the business into one of the four strategy categories, depending on which strategy received more than or equal to 50 percent responses.

Structure: Structural configuration was measured by fourteen items designed to determine the dimensions, including vertical linkages (3 items), horizontal linkages (2 items), centralization (5 items), and formalization (4 items). These structural dimensions were measured using a scale ranging from [1] strongly disagree to [5] strongly agree. Reliabilities are as follows: .65 for vertical linkages, .60 for horizontal linkages, .65 for centralization and .77 for formalization.

Results

Business Strategy: Table I shows the mean scores for all the strategies for each

industry. The results of ANOVA with repeated measure on strategy indicated the significant difference in the use of these four strategies (F (3, 428) = 110.60, p, 0.00). The result of ANOVA also indicated the significant differences in different industries for the use of prospector, analyzer, defender, and reactor strategies (F (3, 427) = 13.98, p <, 0.00; F (3, 427) = 106.83, p <, 0.00.; F (3, 427) = 8.90, p <, 0.00; and F (3, 427) = 113.10, p <, 0.00), respectively. Thus the results support the stated hypotheses (H1) that there are significant differences in the use of strategy by the organizations from different industries. The mean scores indicate that prospector strategy is used more in IT sector and less in power industry. Analyzer strategy is used most in banking sector. Reactor was reported to be used more in power sector (Table I). Defender was reported the least used categories across all strategies. Therefore, further in the analysis, no organization was categorized as belonging to defender strategy.

There are significant differences in the use of strategy by the organizations from different industries.

Table 1 Mean Scores for Business Strategies

Industry		P	A	D	R
Automobile	Mean	2.80	3.09	2.13	3.91
	N	92	92	92	92
	Std. Deviation	1.55	1.33	1.40	1.38
Banking	Mean	3.12	4.69	1.53	2.63
	N	155	155	155	155
	Std. Deviation	1.55	1.60	1.53	1.22
Information	Mean	4.05	3.19	1.80	2.95
technology	N	101	101	101	101
	Std. Deviation	1.93	2.28	1.27	1.99
Power	Mean	2.77	.72	2.41	6.09
	N	83	83	83	83
	Std. Deviation	1.03	.85	.91	1.08

Note: P- Prospector Strategy; A- Analyzer Strategy; D – Defender Strategy; R-Reactor Strategy

Structural Dimensions: Table 2 shows the mean scores for all structural dimensions for each industry. The results of ANOVA with repeated measure on structural dimensions indicated the significant difference in the use of these structural dimensions (F (3, 427) = 41.27, p, 0.00). The result of ANOVA indicated the significant differences among industries for the use of vertical linkages, horizontal linkages, centralization, and formalization (F (3, 427) = 77.54, p <, 0.00; F (3, 427) = 48.68, p <, 0.00.; F (3, 427) = 40.49, p <, 0.00; and F (3, 427) = 103.26, p, 0.00), respectively and support the stated hypotheses (H2). The mean scores indicate that vertical linkages are more used in power sector than in IT sector. Horizontal linkages were reported in automobile sector centralization was reported more in banking sector and formalization is highly prevalent in power sector (Table 2).

Table 2 Mean Scores for Organizational Structural Dimensions

Industry		Vertical linkages	Horizontal linkages	Centralization	Formalization
Automobile	Mean	3.73	4.00	3.89	4.07
	N	92	92	92	92
	Std. Deviation	.62	.66	.38	.41
Banking	Mean	3.75	3.71	4.11	3.49
	N	155	155	155	155
	Std. Deviation	.68	1.01	.55	.65
Information	Mean	3.12	2.93	3.37	3.40
Technology	N	101	101	101	101
	Std. Deviation	1.15	.98	1.17	1.13
Power	Mean	4.81	2.78	3.23	5.00
	N	83	83	83	83
	Std. Deviation	.24	.28	.27	.00

Strategy Structure

Table 3 shows the mean scores of organizational structural dimensions for different strategies used by different organizations. Results of ANOVA indicated significant differences in the use of structural dimensions namely vertical linkages, horizontal linkages, centralization, and formalization with respect to the dominant strategy used by organizations (F (2, 428) = 60.84, p <, 0.00.; F (2, 428) = 23.19, p <, 0.00; F (2, 428) = 19.54, p <, 0.00.; and F (2, 428) = 82.70, p, 0.00), respectively. Vertical linkages and formalization are perceived more when organization was reported to use reactor as dominant strategy. Horizontal linkages are more prevalent in the organization which followed prospector strategy. Organizations using the analyzer strategy were found to be high on centralization than organizations using other strategies.

Table 3 Means Scores for Organizational Structural Dimensions for Different Strategies

Strategy		Vertical linkages	Horizontal linkages	centralization	Formalization
Analyzer	Mean	3.34	3.29	3.96	3.34
	N	167	167	167	167
	Std. Deviation	.96	1.17	1.02	.98
Prospector	Mean	3.76	3.87	3.73	3.24
	N	127	127	127	127
	Std. Deviation	.81	.76	.56	.53
Reactor	Mean	4.38	3.13	3.42	4.50
	N	137	137	137	137
	Std. Deviation	.64	.66	.42	.68

Discussion & Conclusion

As the earlier researches suggest managers must design the organization correctly if it is to be effective for a particular strategy (Fiedler, 1984; Feghhi Farahmand, 2005), the present research focused on identifying the strategy and

structural dimensions adopted in the Indian organizations and their alignment with the strategy of the organizations. The contribution of the study lies in examining the differences in the strategy and structure of organizations belonging to different industry sectors. The business environment varies for different industries and influenced by number of factors such as stakes of government, number of competitors, entry of global players, maturity of the industry, government regulations for the new entrant, requirement of capital, scope of innovation, dependence on the suppliers etc. which are likely to influence the internal characteristics of the organizations. The findings of the study support the hypotheses proposed for investigation and suggest that there are significant differences among organizations belonging to different industry segments in terms of structural dimensions and strategy. Also the use of structural dimensions varies depending on the strategy adopted by the organizations. These findings support those of Gupta, (2011) in the Indian context examining the differences in the use of strategy by organizations from different industry segments.

The use of structural dimensions varies depending on the strategy adopted by the organizations.

Organizations from the IT sector were reported to use the prospector strategy, and banking organizations the analyzer strategy. Organizations from automobile and power sectors have been found to use reactor strategy. Different explanations can be given for the same.

Miles and Snow (1978) proposed that organizations develop relatively enduring patterns of strategic behavior to co-align the organization with the environment. Prospectors perceive a dynamic, uncertain environment and maintain flexibility to combat environmental change and seek to identify and exploit new products and market opportunities. Indian IT industry started to cater to the needs of global clients, now going through a shift and there are a lot of opportunities for growth in this sector as opined by experts. These facts may justify respondent's perception of the organizations using the prospector strategy. Regarding the power sector, the electricity generation capacity in India is the fifth largest in the world, still there are number of issues such as a substantial percentage of population still in blackouts, frequency of power cuts, industrial customer facing problem, and regulations by state government etc. may be the reasons why power sector has been reported using reactor strategy.

Given the dependence on suppliers for auto parts, developing horizontal linkages becomes the major need of organizations from automobile sector. In the power sector any single mistake can be very expensive, that is why control and coordination is achieved through vertical linkages and formalization. Organizations belonging to banking sector were perceived high in centralization, the reason may be that the different branches of the bank spread over different geographies are controlled by the policy framework of corporate office and banking sector is governed by regulations by Reserve Bank of India. For IT sector,

most of the responses came from the employees working on client's projects, and that may be the reason why employees perceived that there is high degree of centralization and formalization.

As regards the relationship between strategy and structure, the direction is viewed differently by different authors. Some studies view structure as following strategy while others say strategy follows structure (Fredrick, 1986). While, the direction of causality between strategy and strategy is beyond the scope of this study, our results indicate that these two are interrelated and need to be aligned to ensure organizational success and support the findings of earlier studies.

The more proactive and aggressive a firm's strategic posture is, the more flexible its organizational structure would have to be.

Organizations with the prospector strategy need to have a structure which can respond to particular control, coordination and learning problems created by a high degree of organizational innovativeness. Organizations with prospector strategy use more horizontal and vertical linkages and less centralization and formalization compared to organizations using other strategies. These findings are in alignment with Day (1986) who views that the more proactive and aggressive a firm's strategic posture is, the more flexible its organizational structure would have to be, to allow it to take advantage of new technologies, new markets, and other changes in the value-added system. The overuse of vertical linkages and formalization may be the reasons the organizations reported using reactor strategy are not able to sense the changing environmental forces and have reacted when are faced with crisis. Nahm et al., (2003) also indicated that a formalized structure may result in employees losing their courage of innovation, independence and learning opportunity. Organizations using analyzer strategy were reported to use more centralization, the reason being that management wants to make sure that there is free flow of ideas as well as effective implementation of the same.

Implications of the Study

This study suggests that the organizations that operate in different competitive environments and rely on different types of strategies should have different structural dimensions which help them to meet the unique demands of the competitive environment. The results obtained by the study have implications for Indian organizations:

(1) Organizations in the Information Technology sector need to use more prospector strategy as there is lot of untapped market in this sector and scope for growth and innovation.

(2) Organizations in the banking industry need to have blend of defender and prospector strategies, which can help the organizations to do its traditional roles of monetary transactions as well as to come with the new products

and services to meet the needs of customers.

(3) Organizations with prospector strategy should support it with more vertical and horizontal linkages, which help to bring successful innovation.

(4) Organizations which are high on vertical linkages and formalization are not able to identify and use the right strategy to position themselves.

Conclusions

This study endorses the contention that structural dimensions need to be aligned with strategic intent. As the organization's strategy evolves, managers need to create or modify systems and structures to effectively implement the type of strategy selected. The findings of the study can be used as guidelines to select the right strategy and structural dimensions for the organizations to suit their environment.

The present study has also some limitations that need to be addressed in future research. The study could have assessed the performance of the organizations in terms of both financial and non-financial indicators which can be strong indicators of how the congruence between strategy and structural dimensions influence organization's effectiveness. Yet, some inferences can be made as the organizations surveyed were among the top in the country. Further the study did not examine the differences among organizations belonging to same industry segment as Indian organizations vary in terms of ownership, i.e. public, private and multinational organizations. Future study can examine the differences in organizational strategy and structural dimensions with respect to size, ownership etc. The findings of the study suggest that structural dimensions and relationships between strategy and structure do not vary in different cultural contexts, however, conclusive statement can be made only with a cross cultural study. The authors opine that trend can be the same in different cultural contexts but the extent of implementation may vary depending on cultural values of a nation.

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