Corporate strategy and structure

If one does not know to which port one is sailing, no wind is favourable.
Seneca (ca 4 BC–AD 65), Roman philosopher, statesman and dramatist

Strategy and planning
Strategy and planning begins with analysis, and a well-known tool to do this is a SWOT analysis (looking at the internal Strengths and Weaknesses of the company, and the external Opportunities and Threats). Planning itself can be categorized into two main types depending on the timescale and purpose of the planning.
- Strategic planning is concerned with the longer term and ‘the big picture’. It is the process of defining the company’s mission, determining the overall goals of the organization and allocating resources to reach those goals. It is done by top and middle managers.
- Operational planning is concerned with translating the general, long-term goals into more specific, concrete objectives. It involves monitoring the day-to-day work of departments. It is done by middle and supervisory managers.

Company structure
Having decided on its strategy, a business needs to organize itself into a structure that best suits its objectives. This can be done in several ways.
- Organization by function. The company is divided into departments such as production, finance, marketing, human resources.
- Organization by product. The company brings together staff who are involved in the same product line.
- Organization by customer type. The company is organized around different sectors of the market. Large customers are called ‘key accounts’.
- Organization by geographical area. The company is organized according to regions.

A large multinational may use several of the above: for example a functional division initially (at an international level), then a national structure for each country, and within this some level of division according to customer types.

The business must also decide on the best way to organize its management hierarchy (= chain of command). The company is run by top (= senior) managers with job titles such as: Chief Executive Officer (CEO), Chief Operating Officer (COO), and a series of Vice-Presidents or Directors of different departments. Top management set a direction for the organization and aim to inspire employees with their vision for the company’s future. This vision is often written down in a mission statement.

The next level is middle management, where managers are in charge of (AmE head up) a department, division, branch, etc. Middle managers develop detailed plans and procedures based on the firm’s overall strategy.

Finally there is supervisory (AmE first-line) management, and typical job titles are: Supervisor, Team Leader, Section Chief. Supervisory managers are responsible for assigning non-managerial employees to specific jobs and evaluating their performance. They have to implement plans developed higher up the hierarchy.

In some companies – or for specific projects – there can be a matrix structure with cross-functional teams. Here employees from different parts of the organization work together and bureaucracy is reduced.

Above everything there is the Board, chaired by a Chairman or President, which gets involved in ‘big picture’ strategic planning and meets perhaps once a month. The CEO will be on the Board, but most Board members are not involved in running the company – they are elected by and responsible to the shareholders. Their main interest is shareholder value: getting a good return on investment in terms of both dividend payments and a rising share price.

Centralization vs Decentralization
A key issue for the company is to decide on the degree of centralization. Should authority be kept at Head Office (centralization)? If so, this would mean:
- A strong corporate image.
- Decisions made by experienced managers who see the whole picture, not just one part of the business.
- Standardized procedures which could lead to economies of scale (lower costs) and simpler distribution channels.

But decentralization also has advantages:
- Lower-level managers are more familiar with local conditions and can therefore give a stronger customer focus.
- The delegation of decision-making is likely to lead to a higher level of morale at the grassroots.

There are other closely-related questions. Should the structure be ‘vertical’, with many layers of management, or ‘flat’, with fewer layers? And how many subordinates should each manager supervise?
3 CORPORATE STRATEGY AND STRUCTURE

**STRATEGY AND PLANNING**

**General issues for senior and middle managers**
- Setting overall sales and revenue goals
- Setting budgets and making long-term forecasts of costs
- Improving distribution channels
- Identifying new markets
- Identifying opportunities for new products
  - Pricing policy: value-for-money products vs high quality/premium price products
  - Building brand loyalty
- Investing in technology, plant and equipment
- Integrating on-line and off-line procedures (eg for sales and for customer service)

**Operational (day-to-day) issues for supervision and middle managers**
- Monitoring and adapting plans (comparing actual data with forecasts, acting on feedback from customers and suppliers, acting on reports prepared by first-line managers)
- Controlling budgets
- Implementing plans, procedures and projects
- Ensuring that objectives are SMART (specific, measurable, agreed, realistic and time specific)
- Identifying customer needs, eg through market research
- Identifying ways to lower costs and reduce waste
- Determining staffing needs

**SWOT Analysis**
- Market position
- Analysing the product portfolio, including stage in the life cycle of main products
- Analysing figures for profit centres (that add value) and cost centres (that spend budgets)

**Analysis of current position**
- "Big picture" issues for board and senior managers
- Evaluating current markets: development, consolidation, or withdrawal?
- Prioritizing sales growth and market share, or earnings growth and profitability?
- Business development: looking at possible takeover targets, mergers, alliances; entering new markets (from zero? buying local company? joint venture?)
  - Product diversification, or focus on core business?
  - Marketing strategy: worldwide or multidomestic?
- Identifying major cost savings: looking for internal efficiencies, setting up production in low-cost countries (outsourcing)
  - Increasing shareholder value: share price and dividends
  - Image, reputation and social responsibility
Corporate strategy and structure: Exercises

3.1 Fill in the missing letters.
1 Inside a company, large customers are often referred to as ‘k_ _ a_ _ _ _ _ _ s’.
2 COO stands for ‘C_ _ _ f O_ _ _ _ _ _ _ g O_ _ _ _ _ _ _ r’.
3 A matrix structure brings together people from different parts of the organization to work as c_ _ _ _ _ _ _ _ f_ _ _ _ _ _ _ _ _ t _ _ _ _ _ _ _ s.
4 The delegation of decision-making is likely to lead to a higher level of morale at ‘the gra_ _ _ _ oots’ (= the ordinary people in an organization rather than its leaders).
5 Each manager supervises a number of sub_ _ _ _ _ _ _ _ _ s.
6 In relation to an existing market, the ‘big picture’ strategy can be one of dev_ _ _ _ _ _ _ nt (growth), conso_ _ _ _ _ _ _ ion (making the existing situation stronger), or wi_ _ _ _ _ _ _ wal (leaving the market completely).

3.2 Complete each phrase 1–10 with an ending a)–j).
1 Operational planning translates general goals _____________.
2 It is usual to divide an organization _____________.
3 Some companies are organized according _____________.
4 The Board gets involved _____________.
5 Senior managers set _____________.
6 Middle managers develop detailed plans based _____________.
7 First-line managers implement plans _____________.
8 First-line managers are also responsible _____________.
9 A cross-functional team brings _____________.
10 Subordinates work _____________.
a) a direction for the company.
b) developed higher up the hierarchy.
c) for assigning employees to specific jobs.
d) in major strategy issues.
e) into functional departments.
f) into more concrete objectives.
g) on the overall strategy.
h) to geographical regions.
i) together staff from different parts of the company.
j) under the supervision of a first-line manager.

3.3 The mixed-up letters make words that describe departments or functional areas inside a company. Put the letters in the right order.
1 haumn rruoeccs 9 pdroctoiun
2 cmoesutr scrieves 10 lgael
3 qtuialy crotnol 11 sihnpdg
4 rsaceeh and dvnlpmeeet 12 facnine
5 pbiluc rotiales 13 metakrni
6 pejcro mmeegnaat 14 atncouw
7 aiiisdttrmaon 15 pasuirchng (= buying, BrE)
8 bnlilig 16 pcroenremut (= buying, AmE)

3.4 Pairs of words in bold have been switched – one from each column. Put them back in their correct places.
1 market (channel) 7 core (growth)
2 cost (value) 8 distribution (research)
3 earnings (business) 9 mission (needs)
4 management (loyalty) 10 market (portfolio)
5 customer (statement) 11 shareholder (centre)
6 product (share) 12 brand (hierarchy)

3.5 Which of the collocations in exercise 3.4 refer to:
1 using a questionnaire to carry out a survey _____________.
2 the main activity of a company that generates most of its profits _____________.
3 financial benefits (= increase in share price and dividends) for the owners of the company _____________.
4 the whole range of products that a company sells _____________.
5 when customers are faithful to a particular product _____________.
6 a business unit that spends money but does not generate revenue _____________.
7 a continuing increase in profits _____________.
8 what is shown in an organigram (= organization chart) _____________.
9 senior management’s vision for the company _____________.
10 how a product gets from the manufacturer to the end-user _____________.

3.6 Match the verbs in the box with their definitions below. Be careful – some are very similar.

adapt assign check control coordinate
determine ensure evaluate implement monitor

1 make sure that everything is correct or the way you expect it _____________.
2 organize people so that they work together effectively _____________.
3 give someone a job to do _____________.
4 carry out; make a plan start to work _____________.
5 have the power to make decisions; make something operate in the way that you want _____________.
6 make certain that something happens _____________.
7 change something to fit a new situation _____________.
8 watch or measure something carefully for a period of time to see how it changes _____________.
9 (formal) think about or test something before deciding its value, suitability or effectiveness _____________.
10 (formal) control what something will be; officially decide something; find out _____________.
3.7 Use the words in the box to complete the SWOT analysis below.

alliance barriers climate debt depth one-stop outdated overhead range shortage start-up state-of-the-art tailor-made transfer workflow

Strengths (strong points, internal)
- a large market share
- a well-structured distribution network
- motivated and well-trained staff
- 1 (= cutting edge) products
- 2 (= customized / personalized) products
- all services provided in one place: a 3 shop
- a well-known, high-value brand

Weaknesses (weak points, internal)
- a lack of new products
- a lack of managerial 4 (= amount of knowledge and experience)
- 5 (= old fashioned) production methods
- high levels of 6 (= money owed to banks and other creditors)
- slow 7 (= progress of work done) due to inflexible procedures
- an over-reliance on a limited 8 of products
- high direct costs (= production costs) and high indirect costs 9 eg utility bills

Opportunities (future chances in the market)
- new foreign markets
- an improving economic 10
- outsourcing
- a key supplier who might want to make a strategic 11
- new product ideas: either from market research or from sales reps talking directly to customers

Threats (future dangers in the market)
- greater competition
- low-cost production in Southeast Asia
- technology 12 to Southeast Asia (so that low-cost countries start using high-tech equipment)
- high 13 costs of a new facility
- political risk: regulation, taxes, trade 14 (eg quotas and tariffs)
- the market approaching saturation
- possible 15 of components or raw materials
- reduced pricing power due to merger of two important customers

3.8 Look back at the completed SWOT analysis in exercise 3.7 and find a word that means:

1 a situation in which you do not have enough of something
2 depending too much on something
3 ‘sales staff’ (the answer is a short form of a longer word)
4 a building used for a particular purpose (especially for manufacturing)
5 when everyone who wants the product already has it

3.9 Tick (√) the one statement that is true.
1 Targets and goals tend to be more general. Objectives and aims tend to be more specific, with aims being the most concrete and measurable.
2 Aims and goals tend to be more general. Objectives and targets tend to be more specific, with targets being the most concrete and measurable.

3.10 Managers should make sure that business objectives are SMART. Can you remember what these letters stand for? Don’t look back at the mind map until you have tried to think!

Sp _ _ _ _ _ , Mea _ _ _ _ _ , Ag _ _ _ d, Rea _ _ _ _ , and Ti _ _ _ _ _

Discussion topics
1 Bosses just take the credit for the work of lower-level employees. Who needs them?
   • Agree • Disagree
2 The continual emphasis on shareholder value in American-style companies produces high levels of stress amongst employees and an inability to think about the longer term.
   • Agree • Disagree
3 Think of two companies operating in the same market (eg Coke and Pepsi, Yahoo and Google, Audi and BMW, Gucci and Armani). Compare their strategies.
4 Make a quick SWOT analysis for a company / country / city / educational institution that you know. Present it to some colleagues and ask for questions.