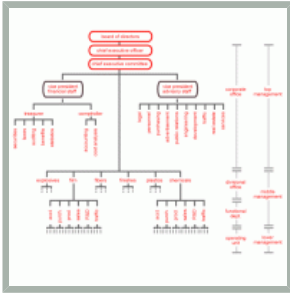


## structure follows strategy



### characteristics

author:	Chandler, Alfred D.
country:	United States
period:	1962
type:	model
role:	consultant
activity:	analyse and design
topic:	strategic management and org. design & development
abstr. level:	organisation
perspective:	rational
status:	final
module:	classics I
comments:	1

### description:

The historian, Alfred Chandler, substantiated his 'Structure follows Strategy' thesis based on four case studies of American conglomerates that dominated their industry from the 1920's onward. Chandler described how the chemical company Du Pont, the automobile manufacturer General Motors, the energy company Standard Oil of New Jersey and the retailer Sears Roebuck developed over time by identifying four sequential stages:

1. acquisition of resources such as employees and raw materials and the buildup of marketing and distribution channels;
2. establishment of functional structures to increase efficiency;
3. adoption of growth and diversification strategy: diversification into new markets and products to overcome limits of home market;
4. the creation of the then revolutionary diversionalised form to manage large conglomerates.

The multi-division form or M-Form is a corporate federation of semi-independent product or geographic groups plus a headquarters that oversees the corporate strategy and coordinates interdependencies.

Although the organisational M-form was implemented differently by each of the organisations, Chandler showed that the need to restructure arose from a strategic shift driven by new technologies and market changes. The M-form emerged and co-evolved with the development of the transportation and communication industries thereby creating the opportunity to manage across time and space.

He described strategy as the determination of long-term goals and objectives, the adoption of courses of action and associated allocation of resources required to achieve goals; he defined structure as the design of the organisation through which strategy is administered. Changes in an organisation's strategy led to new administrative problems which, in turn, required a new or refashioned structure for the successful implementation of the new strategy.

Chandler's thesis argued that new organisational forms are no more than a derivative of strategy as he defined it.

His three step approach designs an organisational structure to match a defined strategy:

- select a basic organisation design;
- modify the design as needed;
- supplement it with coordinating mechanisms & communication arrangements.

### assets:



structure follows strategy

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### pros:

- Chandler's key addition to management literature was to connect strategy and structure -- since a restructuring effort is a result of a change in strategy, a company must first review its strategy, then pursue a different structure.
- The adoption of new technology or the penetration of a new market warrants a review in strategy which in turn merits an organisational restructuring. The emergence or evolution of new organisational structure occurs neither in isolation nor by accident.
- Professional management is essential to increase the chance of successful strategy implementation efforts. Management must devote constant attention to develop a corresponding administrative form.
- With his work "Structure follows Strategy", Chandler demonstrated the relevance of business history and ensured that it would become part of educational programs in many universities.
- His work helped him establish strategy as an important topic for organisations and aided the transformation of McKinsey & Company as a specialist in organisational (re)structuring into a strategy consultancy firm.

### cons:

- The thesis is oversimplified. The relation between structure and strategy is not necessarily one dimensional. Mintzberg argued that the current organisational form can also be regarded as constraining strategic change. Current views such as Pettigrew's, hold that structure and strategy are to be regarded as equal to one another. Rumelt concluded that structure also followed fashion.
- Changes in the market structure have implications for a firm's strategy and structure. Chandler stated that a "fit-to-market" between an organisation's form and its market structure reduces its internal coordination costs and provides a better match between the firm's product portfolio and its tactical customer needs. The "fit-to-market" relationship should be secondary to the "fit-to-strategy" connection so as not to inhibit necessary strategic changes. Commercial management and its related bonus schemes represent the "fit-to-market" component in a firm and tend to defend the current status quo.
- In his case studies, Chandler described the need for leadership to make the transition to the M-form, but

did not regard strong leadership as a prerequisite for an efficient corporate reorganisation.

- The thesis was not based on broad empirical study. The relationship between strategy and structure was described only for a large organisation's growth and diversification strategy. In turbulent environments, the unorchestrated emergence of new forms and strategies occurs.

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