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## Strategy and Structure

Large, decentralized, industrial enterprises have become a modern institution. This organizational structure did not appear spontaneously; rather, it emerged to meet the needs produced by changing business conditions and environments. Alfred D. Chandler, Jr. presented a history of American enterprise in which he stated that the decentralized, multidivisional structure of large organizations is an evolutionary response to growth and change within the American economy.

## Basic Principles of Industrial Enterprise

Chandler was most interested in the ways in which changing environmental conditions affect organizational structures and strategies. Chandler focused his efforts on industrial enterprises, which he defined as “large private, profit oriented business firms involved in the handling of goods in some or all of the successive industrial processes from the procurement of the raw material to the sale to the ultimate customer”.

Thus, for Chandler, industrial enterprise is capitalistic and takes on a life of its own. Even so, the enterprise still needs people to administer its affairs. Administration is an integral part of enterprise and is defined as the “executive decisions, action, and orders that take place while coordinating, appraising, and planning the work of the enterprise and allocating its resources”. As an organizational activity, administration addresses two fundamental concerns: the organization’s long-term health and its short-term health. Long-term health is determined by decisions that affect the allocation or reallocation of resources, and short-term health is determined by decisions about resources that already have been allocated. For Chandler, administration differs significantly from the everyday, hands-on operational aspects of organizational work.

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## Multidivisional Structure

Decision makers in modern, multidivisional, decentralized enterprises administrate from four types of offices: general, central, departmental headquarters, and field units. Each type of office manages a different kind of administrative content. The organizational chart on the next page depicts the relationships between the four offices.

General offices (corporate headquarters) contain the highest-ranking executives. General offices are responsible for the long-term survival of a number of relatively autonomous central offices. The general office determines the organization's overall direction and policies, allocates resources, and coordinates the activities of all central offices. For example, the headquarters of General Motors is responsible for all products and services produced by the General Motors enterprise. To facilitate the administrative processes, General Motors subdivides into relatively autonomous and self-contained divisions (central offices) such as the Chevrolet Motor Division, Pontiac Motor Division, and so on. Each division is responsible for all aspects of one product line.

## The Multidivisional Organizational Structure

Central or divisional offices oversee a particular product line or geographical region. Each division (central office) is responsible for the division's direction, the allocation of divisional resources, and the coordination and administration of a number of departmental headquarters. For example, Chevrolet Motor Division is responsible for all aspects of the production of Chevrolet vehicles. These responsibilities include designing and engineering, procurement of raw materials, manufacturing, and marketing.

Department headquarters are responsible for the administration of major divisional functions (personnel, engineering, procurement, manufacturing, marketing, finance, and so on). Each department is responsible for a number of field units.

Field units are the lowest subunits of the enterprise. Each is responsible for a functional operating unit such as a branch, a district, sales, or finance. Thus, general offices manage central offices; central offices manage department headquarters; and department headquarters oversee field operations.

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## History of the Complex Enterprise

Chandler hypothesized that different environments require enterprises to develop different strategies, and that the structure of the enterprise must follow its strategy. Strategy is defined as the organization's long-term goals and course of action, and structure is defined as the organizational design through which the enterprise is managed. Chandler suggests that strategy can be thought of as:

- Lines of authority and communication; and
- Information flow through the lines of authority and communication.

Modern industrial enterprise usually is managed by well-trained and specialized full-time administrators. This is a very significant change; prior to 1850 there was little need for full-time administrators. Most enterprises were family owned and operated and produced only enough to meet the family's needs and the needs of a small, local community. Yet larger enterprises—such as railroads, limited manufacturing, and textiles—did exist. However, operations and distribution were localized, and day-to-day business was relatively easy to monitor. For example, a “larger” enterprise before 1850 was the railroad, but railroads were less than fifty miles in length, and day-to-day operations were simple and uncomplicated. What little administration was required was done by the president, and little thought was given to future operations. These small-scale enterprises were composed of what Chandler called embryonic administrative structures.

Beginning around 1850, enterprises began to expand; still, there was little need for large-scale administration. However, the east-west railroad link altered administrative needs significantly. The completion of a transcontinental link brought into reach markets that once were inaccessible. Consequently, markets for nearly all goods and services expanded. Expanding markets encouraged innovation and technological advances, which, in turn, encouraged expansion and further production. The railroads in particular experienced tremendous growth; their operating horizons increased, and the management of day-to-day operations became more complex. New systems emerged as the railroads grew, and a post-embryonic form of administration appeared.

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According to Chandler, Daniel McCallum, then the General Superintendent of the Erie Railroad, was one of the first to recognize formally that new systems were needed. McCallum's new systems included:

- Clear definitions of authority and lines of communication (including some of the first organizational charts); and
- Improved information flow from outlying operational areas.

Still, the railroads' environment remained relatively noncompetitive, and the focus remained on short-term, day-to-day operations. Following the Civil War, the demand for goods and services increased as people moved to the newly accessible western states. By the end of the 1880s, most farmland had been settled, and the pattern of national growth turned toward urban industrial and commercial centers. From 1880 to 1890, the American population increased 28 to 40 percent, adding to the consumer demand. Organizations responded by growing and expanding; they increased production, constructed new plants, and expanded to additional locations. By the end of 1896, most large enterprises employed full-time administrators.

Increasing operational complexity brought about a new challenge: designing organizational structures that would complement the expansion. At first, the emphasis was on field units; administration remained within centralized corporate offices. Then, organizations began to realize that administration requires different kinds of people with different skills and temperaments. This realization and the focus on field units led to the addition of more functions (vertical integration) and increased specialization. Chandler notes that this trend formed the basis for Frederick Taylor's theory of scientific management. Still, field units and department headquarters were managed by and remained accountable to a single, centralized office.

A shift in markets and technology began in the late 1870s and the early 1880s. Prior to 1880, most steel was produced for the railroads and to support the construction of a national rail network. However, by 1880, basic national railroad structures were in place, and steel markets shifted to urban construction. This meant that steel manufacturers now had a diversified customer base that required greater quantities and product variation. Larger sales forces were required, leading to the development of internal marketing departments and branch (field) offices. In addition, laws regulating the purchase of stock made it favorable for enterprises to expand and to diversify through acquisitions and mergers. The difficulties of managing diversified organizations, products, and services made the need for well-defined administrative systems obvious. Organizations that once had little interest in systematic administration began adopting long-term administrative processes.

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Prior to 1920, no organization had designed a structure for a general office that effectively could manage autonomous divisions. At the same time, the marketplace was demanding that industrial enterprises expand existing product lines, find new markets and sources of supplies for their products, and develop new products for new and expanded markets.

Multidivisional, decentralized structures arose as a means of managing increased diversity and complexity. Organizations began to address issues such as coordination of product flow, acquisition of materials and supplies, and the manufacture and marketing of diverse product lines to dissimilar markets. Thus, the multidivisional administrative structure that did not exist prior to 1920 became the standard structure for complex and diverse organizations after 1960.

## Implications of the Strategy-And-Structure Process

Chandler says that the historical role and function of administration in large enterprises is to plan and direct the use of organizational resources in ways that corresponded with the long- and short-term demands of the marketplace. Administrative responsibilities require a degree of direction, strategy, and structure. Chandler's historical perspective points out four fundamental phases that led to the development of multidivisional, decentralized enterprises:

- Initial expansion and accumulation of resources;
- Rationalization of the use of resources;
- Expansion into new markets and product lines; and
- Development of new structures that made it possible to use resources to meet both changing short-term market demands and long-term market trends.

Environmental changes and the nature of available resources produced changes in organizational strategies, which were followed by revised organizational structures. Thus, changes in structure followed changes in organizational strategy; and changes in organizational strategy followed changes in the marketplace.

Modern organizations also are confronted by changing environments and markets. However, the rate of change has increased dramatically. If it is true that history repeats itself, then drastic changes in organizational strategy are forthcoming—changes that will affect organizational structures, methods of leadership, and methods of communication. These changes will be necessary both for effectiveness and for survival.