

Inclusive Strategy: Toward Integrating Organization Structure Constraints into the Strategic Planning Process

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Abstract. This paper emphasizes inclusion of organization structure as an input to any strategic planning process rather than being an outcome of the new strategic direction adopted by the management. Successful organizational transition is the most important assumption during the formulation of a strategy. This assumption is based on the unconscious view of those involved in driving change that people are rational and open to change. The paper suggests an efficient method of mapping employees with the future organization structure at the time of conducting the strategic planning exercise to ensure coherence and consistency between those who designed the new processes and person selected to execute the processes, leading to successful implementation.

Keywords: Organization structure, Change Management, Strategy Process

1. Introduction

Any strategic planning process is driven by the objective to move toward a single strategic framework that is flexible enough to deal with environmental shifts [1]. We could extend this further by including that this framework must also be robust without requiring continuous change in internal structure and relationships.

Large EPC companies in India, have a strategic planning and evaluation drive every 5 years. The team consists of a combination of senior business unit representatives working together with a central external consulting team.

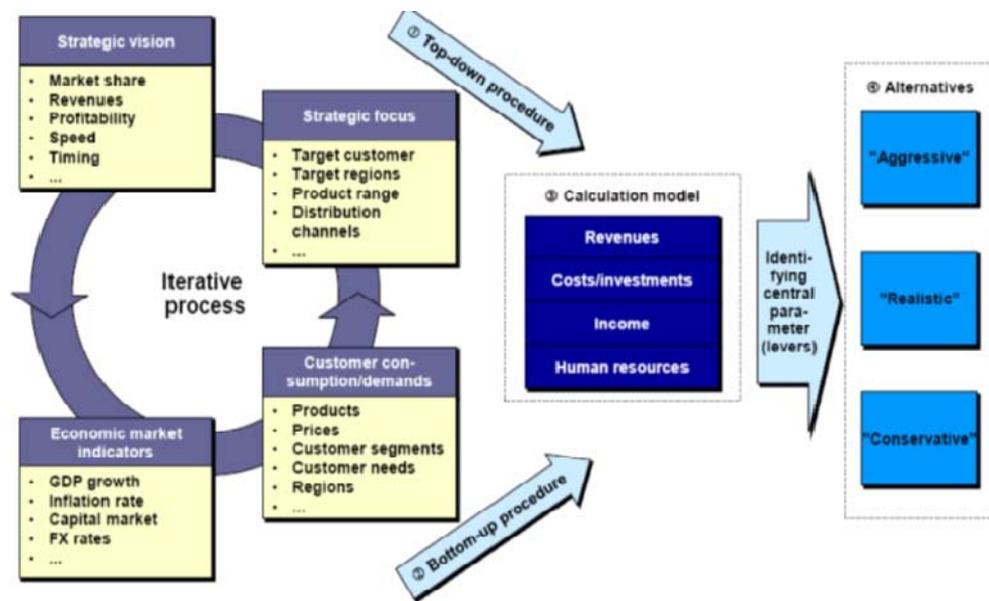


Fig. 1: Strategic Planning Framework (Source: BCG)

Most consultants suggest similar models, as shown in Fig1 for evaluating different parameters and arriving at alternatives that “fit” the vision of the organization. The strategic options shortlisted by the team will be based on a number of assumptions viz. macroeconomic factors, competitors, industry scenario. Many of the companies in the sample relied on small, elite task forces staffed by top-performing managers temporarily pulled from their normal roles to work on the issues, deliver decisions or recommendations, and disband.

2. People are not “Rational”

The assumption that is accepted without thought is that people have the same expected utility [2] and hence will follow the change mandate given to them with the reason that it is done for the greater good. A change management initiative is one that is typically driven by changing external environment and conceptualized by senior management and the strategy department in any organization.

But people being rational will evaluate the decision on the basis of the immediate implications on each individual. Therefore deciding on a strategy in isolation and passing down the decision for the organization to implement will raise impediments, cause friction, lead to temporary increase in attrition and ultimately lead to delays in complete implementation of the new structure and hence the new strategic plan.

Also, under the pressure of impending change, people will further react to the situation with lesser consideration to the collective good. Therefore, it might not be entirely correct to assume that people will collude to operate in a mechanism that has been decided by another set of people who are also influenced by their own biases and career aspirations.

Removing this assumption will require due diligence in the area of the behaviour of the organization, identify the leaders, followers, trouble makers and ensure that the career plan is present for each position and each transaction between people is standard and style dependent decisions are minimal.

3. Case Study

Consider the business unit in one of the largest EPC companies of India. The business unit functions in the power, steel and mining sectors and mainly executes EPC contracts for coal handling plants, ash handling plants and raw material handling plants. The current organizational structure is mainly hierarchical structure.

3.1. Need for Change

The business unit was a manufacturing set-up which supplied equipment to power plants, mines and steel plants. The next step in its expansion was to include engineering capabilities for designing the plant and conveyor systems which housed the machinery. The next strategic progression was to move to construction as well. The business unit now handles LSTK (large scale turnkey projects). The organization structure mirrors this as it has 3 distinct departments for engineering, procurement and construction. KPIs are different, the reporting heads are separate and there is no common project based KPI for all the three departments (Fig2).

The organization did not change its organization structure even though it broadened the range of services it offered. The organization has now hired a team of competitive management consultants to drive a change initiative throughout the business unit. The trigger – increase in competition and low cost of completion of projects.

The management adopted a reactive HR strategy where the HR strategy is based on the structure desired by the strategic plan. [3]

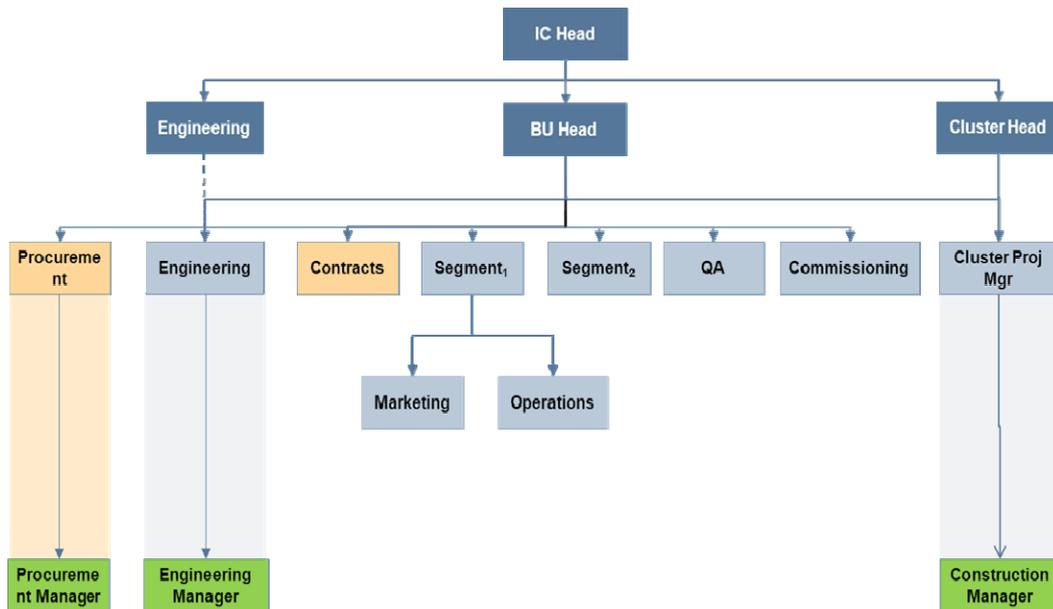


Fig. 2: The as-is organization structure of the business unit. Each department is headed by a separate person at the same level of the business unit head. He reports to the IC (independent company) head.

3.2. Outcome of the Strategic Planning Exercise

The current system of working provided no incentive for project teams to optimize cost and schedule. The management decided to move from a departmental structure to a “task force” structure.

The people were re-organized as per the new task force based structure. (Fig3)

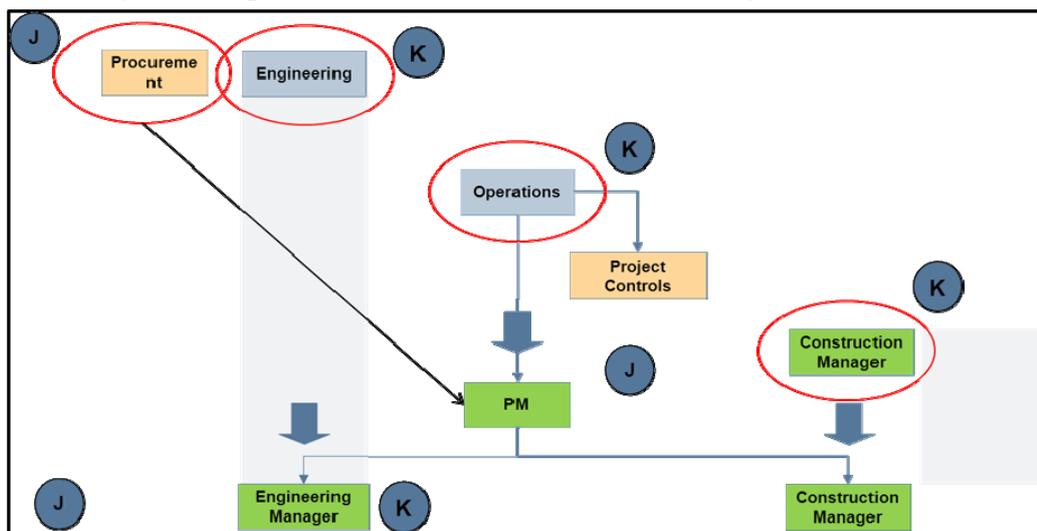


Fig. 3: The letters denote the quadrant to which each position belongs to in the Lepak Snell Architecture.

K – Knowledge based (core competence based role); J – Job based (productivity based role)

3.3. Outcome of the strategic Planning Exercise

The issues that it now faces –

1. A hierarchical organization hence people are unwilling to give up power/number of sub-ordinates directly reporting to them.
2. In Construction industry generally construction managers look out for each other and so do engineering managers. They are highly egoistic about their own function.

The organization now faces not only the problem of change management but which of its employees can it afford to lose and which are critical for its new strategy.

4. Preparation of HR Strategy

This paper aims to incorporate HR strategy into the strategy formation process. Although as mentioned earlier most companies follow a reactive process for HR strategy. In that the HR strategy is based on the result of the strategy formulation process.

The proactive strategy gives a place at the table to the HR. While this is ideal the process is not followed mainly due to interpersonal issues and lack of importance given to adopting a strategy that matches the HR strength. One of the core success factors of a strategy is how well the departments function [Rumelt]. Most companies spend as much as 1 year or more to plan the strategy for a horizon of 5 years. The HR strategy will be re-arranged to match the new requirement and this process takes place after the strategy has been formed.

The process impacts a service industry more because at the end of the day it means a leaner organization to fulfil the needs of a cost competitive environment. The urgency increases and usually the people chosen for the new roles are not after the due diligence that needs to be given to an act of change. People are assumed to understand and that they are rational in nature; but under conditions of stress and pressure that come along with change people do not act rationally. [2]

The paper suggests an intermediate approach to HR strategy.

While the any strategy necessitates change at least at one level in the organization, the HR must at the same map the individuals to the four archetypes as defined by the Lepak and Snell. (Fig4)

Once completed any organizational change which put the core employee at a disadvantage must be looked at to find alternatives.

The way to map employees can be done by the divisional HRs in confidence with the corporate HR. The impact of the sudden change in organization structure to match the new competition and gain more orders was disastrous with the procurement manager being made in-charge of the complete project. The procurement manager is not technically capable of handling such an assignment. The construction manager



*Adapted from Lepak & Snell (1999)

Fig. 4: Lepak & Snell HR Architecture

who is the backbone of the strong execution capability desired by the new strategy is made to report to the procurement manager who now is the overall project manager.

If the mapping was done by the respective unit HRs at the same time as the strategy defining process, the structure would have been different to resemble Fig5.

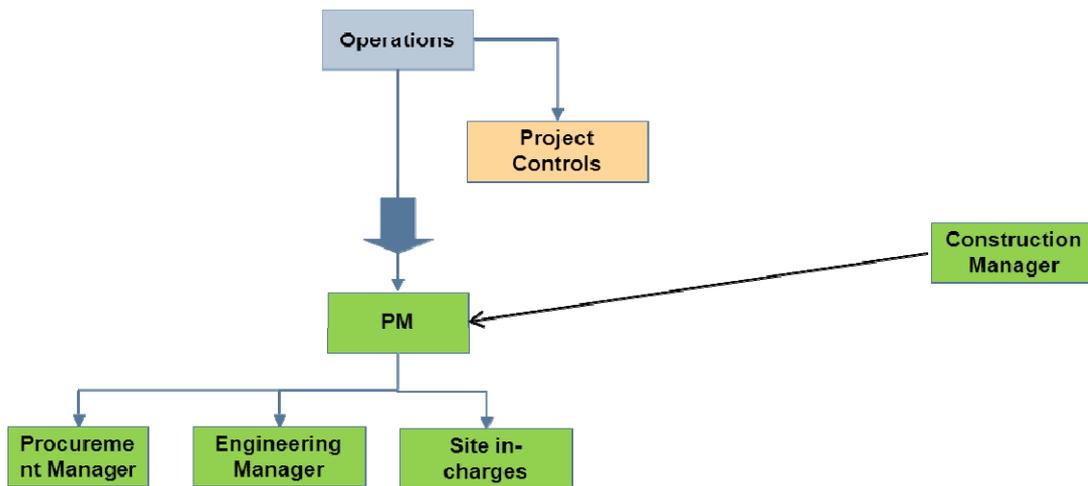


Fig. 5

The advantage of this structure over the Fig3 is that the core employee is heading project. The utility of being made project manager is higher for the construction manager because the execution and hence the timely completion of the project rests with the construction manager. Also, the trend for the project planning is to have a construction driven plan, which makes construction responsible for the schedule.

5. References

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