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STRATEGY AND ORGANIZATION: HOW STRATEGY SHAPES ORGANIZATIONAL STRUCTURE

Abstract. The organizational structure of enterprise is greatly influenced by its strategy. In modern economic conditions each organization needs to develop its own strategy to have competitive advantages. Effective strategy gives an opportunity not only to win in the conditions of intense competitiveness but also to gain higher amount of profits. Corporate strategy defines the functional strategies of the departments. The organizational structure should best accomplish the goals and objectives of the business. The best structure allows the organization to interact with the environment effectively, to achieve its goals with the highest efficiency. The structure of the organization should provide the implementation of its strategy. As strategy has been changed over the time it is possible to make some changes in the organizational structure. For effective implementation of the strategy the company should improve its organizational structure for effective promotion of products, establishing quality communication with customers and resellers. The theoretical bases of strategy process and its influence on the organizational structure are highlighted in the paper. The main concepts of strategy are analyzed in order to find the dependence between strategy and organizational structures. The main types and stages of organizational structures should be analyzed to determine the advantages and disadvantages of each one for organization development. The type of organizational structure depends on a number of factors. For example, the important role played by the size of the company and the size of the business. Some organizations work directly on the needs of the general public, some, on the contrary, deal mainly with other large companies, some operating in geographically limited
areas, others in almost all countries. Over the time the changes of strategy caused the reforming of the organizational structures. Some practical aspects of strategy development and the improvement of organizational structure of the organization are also researched on the example of Nestle. It is important to study these questions because the efficiency of enterprise is greatly dependent upon its strategy that affected the organizational structure.

Keywords: strategy, organization, structure, customers, concept, advantage.

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СТРАТЕГІЯ ТА ОРГАНІЗАЦІЯ: ЯК СТРАТЕГІЯ ФОРМУЄ ОРГАНІЗАЦІЙНУ СТРУКТУРУ

Анотація. На організаційну структуру підприємства великий вплив має його стратегія. Стратегія є важливим інструментом підвищення ефективності діяльності організації. У сучасних умовах кожній організації необхідно розробити власну стратегію, щоб мати конкурентні переваги. Ефективна стратегія дає можливість не тільки виграти в умовах жорсткої конкуренції, але й отримати більший прибуток. Саме тому теоретичні та практичні аспекти стратегії слід вивчати в сучасних умовах економічного розвитку. Організаційна структура повинна найкращим чином досягати цілей і завдань бізнесу. Найкраща структура дозволяє організації ефективно взаємодіяти з навколишнім середовищем, досягати своїх цілей з найвищою ефективністю. Структура організації повинна забезпечувати реалізацію її стратегії. Оскільки стратегія змінюється з часом, можна внести деякі зміни в організаційну структуру. Для ефективної реалізації стратегії компанія повинна вдосконалити свою організаційну структуру для ефективного просування продукції, налагодження якісної комунікації з клієнтами та посередниками. У статті висвітлено теоретичні основи стратегії процесу та її вплив на організаційну структуру. Проаналізовано основні поняття стратегії з метою виявлення залежності між стратегією та організаційною структурою, визначено переваги та недоліки кожної з типів організаційних структур для розвитку організації. Тип організаційної структури залежить від ряду факторів. Наприклад, важливе
Problem statement. Strategy is an important instrument to increase the efficiency of organization’s activity. In modern economic conditions each organization needs to develop its own strategy to have competitive advantages. Effective strategy gives an opportunity not only to win in the conditions of intense competitiveness but also to gain higher amount of profits. That is why theoretical and practical aspects of strategy should be studied in modern conditions of economic development.

The organizational structure of enterprise is greatly influenced by its strategy. Corporate strategy defines the functional strategies of the departments. The organizational structure should best accomplish the goals and objectives of the business. The best structure allows the organization to interact with the environment effectively, to achieve its goals with the highest efficiency. The structure of the organization should provide the implementation of its strategy. As strategy has been changed over the time it is possible to make some changes in the organizational structure. For effective implementation of the strategy the company should improve its organizational structure for effective promotion of products, establishing quality communication with customers and resellers. The theoretical bases of strategy process and its influence on the organizational structure are highlighted in the paper. The main concepts of strategy are analyzed in order to find the dependence between strategy and organizational structures. The main types and stages of organizational structures should be analyzed to determine the advantages and disadvantages of each one for organization development. Some practical aspects of strategy development and the improvement of organizational structure of the organization are also researched on the example of Nestle. It is important to study these questions because the efficiency of enterprise is greatly dependent upon its strategy that affected the organizational structure.

Analysis of last publications. Analysis of the conceptual bases shows that the definitions of strategy have been changed in dialectical interaction with the
development of economic science. The spreading of economic concept “strategy” in the economics is associated with the “economic wars” in the middle of the twentieth century [14]. They demanded to use such techniques and management practices that allow to produce the same amount of production and at the same time promote the survival in the conditions of intense competition.

Scientists have different approaches to the definition of strategy. A. Chandler [7] considers the process of strategy development as the main long-term goals and objectives of the company, taking a course of action and allocation of resources necessary to achieve the goals. Changes in the strategy of organization led to new administrative problems which required a new structure for the successful implementation of the new strategy. Chandler’s [7] thesis argued that new organizational forms are no more than a derivative of strategy as he defined it. M. Porter considers the competitive strategy in contrast to the others. It is balanced selection of other excellent set of actions to deliver unique benefits to consumers [23]. A. Thompson and A. Strickland [30] propose to consider the strategy as a combination of planned actions and quick solutions to adapt to new developments and new industries disposition on the field of competition. W. Gluck defines strategy as a unified, integrated and clear plan that is designed to be confident in achieving the goals of the company. Analysis of the literature shows that the questions of strategy influence on the organizational structure are mostly studied in the works of A. Chandler and H. Mintzberg [18].

The main thesis of Chandler “strategy follows structure” shows that structure affects the organization’s strategy [7]. H. Mintzberg argued that “the relationship between strategy and structure is mutual” [18]. “Structure follows strategy ... as the left foot follows the right.” Strategy covers many aspects of the company, so it was necessary to classify strategies according to various criteria. The criteria for classification are: the level of decision-making; the basic concept of achieving competitive advantage; stage of the life cycle of the industry; the relative power position of the sector; the degree of aggressiveness behavior in competition, etc. Three levels of strategies – corporate, business and functional are mostly highlighted in economic literature.

Aim of the article. Aim of the article is to show the dependence between strategy and organizational structure of the organization.

Main material. Corporate strategy determines which business proposals will deal with the organization, whether these proposals will meet its main purpose, and how the resources will be distributed among a lot of activities. Corporate strategy is the main strategy of the company and reflects the general development plan for the company in the long-term period. The corporate strategies include the strategies of development, concentration and diversification. These strategies most of all influence the organizational structure.
Business level is the middle hierarchy of decision making. Business strategy focuses on the best means of achieving progress in the implementation of business proposals. It aims to determine the type of advantages on the market and includes some measures in response to changing external conditions and the market situation. Porter notes that any strategy based on one of the competitive strategies: costs leadership, differentiation or focus on the costs or differentiation [22]. This level of strategies influences the organizational structures not directly but through the changes in the competitive policy of the company or other instruments.

Functional level of strategy is the lowest in a hierarchical system of the organization. Functional level of strategy aims to implement an action plan to control the individual units within the enterprise and must support the business strategy level. Specific activities such as manufacturing, marketing, investment, human capital management, accounting, research and development, regulation of production is controlled by one of the functional strategies [13]. Functional strategies cannot be developed in isolation. They should be linked both vertically with customers and horizontally with other activities of the company. Strategic vision in this structure defines in general terms target market, product lines, the core business and its operational capabilities.

At each of these levels the strategies that can be classified by various criteria (such as the market share, the level of management decisions) [13]. For example, if the company is not satisfied with market share and profits it is reasonable to develop the strategy of “creation” that uses the whole arsenal of marketing mix to expand the boundaries of the market and win the new market segments. The strategy of “cream skimming” aims at a sharp increase of profits caused by decreasing the market share. According to this strategy “share of market is given to competitors, and the money saved on production costs and obtained from the sales and marketing companies are received in cash as its direct benefit” [10]. Some companies use “holding strategy” (defense) when it suits the size of market share and they would not like to increase it because of limited resources or other reasons. The choice of the strategy is dependent upon the phase of product life cycle (introduction, growth, maturity, or decline) and other factors. One of the most important is organizational structure. Strategy also includes financial policy that is to balance the interests of society, owner and employer.

Another important prerequisite for high performance of the chosen strategy is to build such an organizational system which would provide the compliance of managers to their management abilities. Strategy also has a great influence on the organizational structure of the organization.

As it has been mentioned above the influence of the strategy on the organizational structure was studied by many scientists and especially by A. Chandler and H. Mintzberg. Studying the activity of large corporations A. Chandler concluded
that the chosen strategy affects the structure but this effect usually cannot be called as direct [7]. The strategy defines such parameters as the mission of the organization, its goals and the way to achieve them, the means to adapt to the environment, and within them affect the structure. Many aspects of the interactions between structure and strategy were studied by H. Mintzberg. He agreed with A. Chandler, but found that the rate of growth of the organization and distribution of power as factors that determined the strategy also affect the organizational structure.

H. Mintzberg ranked the three main criteria [17]:
1. The main mechanism of coordination or the main approach used to coordinate different types of organizational performance.
2. A key part of the organization (and the part that plays a major role in achieving the success or failure of the organization).
3. Type of the decentralization (method which is used for the distribution of power in the organization).

Each of these criteria has several options. H. Mintzberg identified five major forms of organizational structures.

1. Simple structure. This type of structure is used by small-sized organizations that are controlled by the aggressive entrepreneurs and organizations just starting out. The organization is not specialized in the manufacturing of special products or services.

2. Machine bureaucracy. This type of structure can be used in the stable predictable environment. The high level of specialization, strict power model, and limited control are the main features for these organizations.

3. Professional bureaucracy (public universities, hospitals). Such organizations have little functional managers. For members of such organizations the association in the units of professional interests is usual.

4. Divisional form. Most of large companies have such structure. Power is transferred to the division level, but within the division it is centralized. The emergence of this type of structure is caused by the necessity of market diversification.

5. Adhocracy. It is an organic structure. It avoids specialization and formalization. Large research centers and institutions should use such form.

Regulations and the influence of the strategy and structure had been proved in the early 60’s by A. Chandler in his “Strategy and Structure”. The practice of enterprises activity in developed countries confirmed the Chandler and Mintzberg’s conclusions about a gradual transition from traditional linear-functional and functional structures to structures with sub-sections of various types. These trends support the view of the existence of common problems in the large and medium-sized enterprises – the loss of flexibility and slow response to changes in the environment. Organizational structure can be defined as a system of connections and
relationships in the enterprise between existing and established departments, degrees of control systems according to the chosen strategy of total control.

There are three main stages in the development of organizational structures:
- classic structures (linear, functional, linear-functional);
- improvement of functional linear organizational structures;
- the appearance of strategic organizational structures.

Simple organizational structure are used by small firms. Such an organization can operate efficiently until it reaches a certain critical size, after which excess management efficiency decreases significantly [1]. This critical size depends largely on the nature of the business. For example, a broker may do business with significant turnover, while another business with the same turnover requires some changes in organizational structure.

The functional structure is based on the solving of functional tasks such as manufacturing, finance and accounting, marketing and personnel. This type of structure has proved its effectiveness in multinational companies. First functional structures were introduced in the small companies with a small list of products produced. Now even multinational companies use their division of the functional areas of management. Like any other structures the functional one has its advantages and disadvantages. It allows controlling activity at higher levels, gives a clear definition of roles and tasks but does not allow to develop the strategy of diversification. The further improvement of management and production efficiency is impossible without the development of methods for changing the organizational management structure. The effectiveness of the organizational structure development cannot be assessed by only one indicator. On the one hand, it is important to determine how the structure of the organization achieves its results in accordance with the industrial and commercial purposes and on the other hand it is necessary to change the organizational structure in accordance to changing strategies.

The transition from “traditional” to strategic organizational structures is greatly determined by the modern economic conditions and global changes in the world economic processes. There are some differences between traditional and strategic organizational structures. Traditional structures have the following features: tight links into the organization, consolidation of duties in the standard organizational documents; control mechanism - centralized using all forms and methods. These structures are functional, centralized, hierarchical, and stable.

Strategic structures are determined as decentralized, flexible, with universal (including temporary) links based “on purpose”; the main principle of forming links is the focus on identifying and solving problems; organizational structure includes the only team that uses both administrative and socio-psychological methods of coordination and control [1]. The organizational systems have become more
complex in the conditions of strategic challenges. The transition from hard structures oriented to current activities to flexible, aimed at strategic development determines the modern management process in the enterprises.

A. Chandler also pays much attention to the studying of the interactions between the strategy and structure. He argued that changes in the structure are followed by strategy. After the changes in the structure the next cycle begins: changing in the strategy due to changes in strategic thinking. A new stage of development begins. The organizational structure can promote the strategic development of the company. The concept of strategies and development strategy is the basis for the reforming of the organizational structures (fig.1).

The elimination of the existing and creating a new one is, in fact, the implementation of providing strategies. Otherwise the development in accordance with defined strategies is impossible.

The type of organizational structure depends on a number of factors. For example, the important role played by the size of the company and the size of the business. Some organizations work directly on the needs of the general public, some, on the contrary, deal mainly with other large companies, some operating in geographically limited areas, others in almost all countries. Over the time the changes of strategy caused the reforming of the organizational structures.

Managers have a challenge to develop strategically flexible organizations in response to rapidly changing environment and competition. Analyze of the strategy influence on the organizational structure at Nestle shows that on the different stages

R&D Organization Structures
- the input-oriented structure
- the output-oriented structure

Absorptive Capacity
- Working Attitude
- Organizational Institutions

Product Strategies
- organizational, technological, integrating and marketing capabilities
- New Product
- Strategy Implementation
  - financial, internal business, customer and learn perspectives

Fig. 1. Input of different R&D structures on the strategies
Source: formed by the authors [8]
of development the company changed its organizational structure according to changing strategy.

More than a hundred years of its existence Nestle managed to gain worldwide recognition as a manufacturer of high quality, healthy and safe food and gain a reputation as a decent, responsible and reliable partner. Today Nestle products are manufactured in over eighty seven countries. When the company Nestle, which was founded in Switzerland, tried to enter the international market and internationalize its activities by establishing foreign offices worldwide its organizational structure was based on the geographical principle. It included the liability of managers in the subsidiaries for doing business, while the executives were responsible for the planning and control. This structure may be effective for companies with similar product lines and markets. Disadvantages of functional structure are minimized through better coordination of functional departments, and creating market-oriented substructure. Divisional structure in Nestle is based on the functional but it solves the problem of diversification. Each unit can focus on the challenges and opportunities of the specific business environment. The advantage of the divisional structure is ability to organize the activity of each structural unit as a separate direction. However, it has also disadvantages because the process is much more complicated to control. The advantage of the holding company is the fact that it provides a great deal of discretion or independence of its structural components. Companies work and develop their potential more effectively when they have more autonomy especially in a rapidly changing environment. Subdivisions - subsidiaries may be fully or partially owned by the parent company. The matrix structure is a combination of different types of organizational structures. It usually takes the form of product and regional or functional and divisional structures working together. Purely functional or divisional structure cannot be applied as the basis of building management structure for several reasons. For example, if a company like Nestle is expanding its business at the multinational level and develops the new product lines, for coordination of production and distribution of products on a global level it may be necessary that the units are built with the product lines.

The business strategy of distribution of Nestle is based on a system of Logistics Vision Suite (LVS). It can help to control not only the business processes but also all supply chain from forecasting sales and needs ending with management performance in all areas of supply chain, manufacturing, warehouses, and transport. The company Nestle also has made significant progress in the responsible attitude to agriculture, supply, production and consumption by its coffee supply chain using the functional strategy of marketing. In 2010 the company presented the Mexico proposal that is a part of the global plan included “500 million investments in coffee” that will be implemented by 2022. The plan includes a number of global challenges which should help Nestle to further optimize the supply chain of coffee including
the increasing of number of direct purchases and technical assistance to farmers. Only the fast changes in the organizational structure made it possible to achieve the goal of company.

In the first nine months of 2013 the amount of Nestle sales rose to 4.0% or 68.4 billion Swiss francs. Real internal growth was 2.0% in America, 1.9% - in Europe and 5.8% - in Asia, Oceania and Africa. In the future the investment strategy of the company will include the development of new products, expanding the existing markets and finding new, increased performance of the corporation and expected future growth, to achieve 5% organic growth for the year with increased profitability and underlying profit for share in constant currencies, as well as improving the efficiency of investment.

One of the corporate strategies of Nestle is the strategy of diversification that is realized by penetration into new areas and by expanding the range of products to transform the company into multipurpose centers. Based on the Porter’s strategy of focus on the differentiation the company is differentiated for product groups (confectionery products, ice cream, pet food, baby food, etc.) and geography that allows it to achieve sustainable growth even in the conditions of fluctuations of consumer preferences or decline in a particular region. The company successfully works in such spheres as infant and special food, pet food, ice-cream. Rapid division of Nestlé Professionals offers the innovative solutions in the field of food “outside House”. Thus, the company Nestle successfully controls different strategic business units that are in the business of company according to the chosen strategy of diversification by the means of rebranding of acquired businesses, and conducting all necessary measures to strengthen positions of existing brands at the market and their development. This is done by updating assortment, modernization of production equipment, improvement of the organizational structure.

For effective implementation of the strategy the company must create good conditions. First of all it should improve the organizational structure. To improve the effectiveness of marketing activities in the field of advertising company uses the strategy to promote new products through brand umbrella. The mechanism of this type of branding is simple: a successful brand as an umbrella covers a number of different products. Technology of umbrella branding helps to reduce risks in the competition. “Umbrella” company also facilitates access to neighbor markets.

According to the chosen strategy the company offers products that satisfy the tastes of a various groups, the company focuses on all family members, offers the products to “our little friends” – pets. This approach requires maximum market coverage and constantly increasing its share of it. To achieve this task there are four main strategic directions of the corporation: communication with customers; ensuring the availability of goods; increasing the operational efficiency; innovation and renovations as new products and business processes.
Recent years Nestle has consistently implemented its strategy to strengthen its position as a leading manufacturer of food product and expanded the boundaries of its activities by the establishment of such units as the Nestlé Health Science and Nestlé Skin Health. At the same time, the company continued to increase the efforts to maximize the use of their assets and strive to achieve profitable growth by optimizing the internal structure and efficient positioning. Superior portfolio of products and brands, opportunities in the field of scientific research, geographic position, people, culture, values and attitudes are the main competitive advantages of Nestle. Nestle has achieved its success in each of these four competencies: innovation, anytime, anywhere, anything, attracting customers, and the operating efficiency. They contribute to the design, product quality, the operating efficiency, interaction with customers and other stakeholders, and differentiation from competitors. The company’s strategy in the world is in long-term investment. As part of this strategy, the company is actively investing in local production, the development of products that meets the tastes and traditions of customers as well as uses the local raw materials and components. In addition, the Nestle has invested heavily in training and development of employees using the international experience of the company and the scientific and technical knowledge. In 2019 Nestle has made the significant progress in implementing the commitments for the maintenance of the ecological sustainability of the business. The company exceeded the planned figures for energy and water saving and it reduced the greenhouse gas (CO2) emissions and waste levels.

In this context the Board of Directors of Nestle at the meeting held on September supported the establishment of a new unit – the Nestlé Business Excellence, as well as the revision of the geographical boundaries of Europe Zone and Asia, Oceania and Africa. The responsibilities of the new division of Nestlé Business Excellence includes the tasks for corporate support in the business previously carried by GLOBE and Nestlé Business Services as well as the assistance in the implementation of corporate initiatives “Continuing excellence”. The new division was formed in order to support the corporate strategy of the company. Penetration into new markets and development the new products were the main elements of Nestle strategy that time. The creation of new division in the organizational structure of Nestle confirms that the strategy of the company closely connected with its structure. In modern conditions Nestle has strategic organizational structure that is chosen by the strategic orientation of the company.

**Conclusions.** The results of the theoretical and practical aspects analyze of strategy and organizational structures shows that the organizational structures at the company are influenced by strategies. Rapid changes of environment make it necessary to change the corporate, business and functional strategies in the enterprise. Such changes affect the organizational structures of company.
Organizational structures have been changed from simple linear or functional to more complex – divisional or matrix and named by the scientists the strategic organizational structures. They are more flexible to change in the conditions of fast and sustainable development. Such structures are used on the multinational corporations and large companies because these organizations should be more efficient in the changing conditions. Their strategy covers all activities and it is greatly influenced the organizational structure.

The example of Nestle shows that the development of diversification needs to improve the organizational structure. In order to improve the organizational structure while realizing the strategy of diversification the new departments were created in different countries. After analyzing the strategies of Nestle it can be concluded that the company is profitable in the global market and constantly expands and improves the range and quality of products. The company also used the strategy of concentric diversification that contributed to the achieved results. As a competitive strategy Nestle is based on cost leadership strategy and focus on the diversification. This can be justified by the fact that the Nestle products are focused on the broader market and it produces the essential commodities. On different stage of development Nestle has its strategy that allowed to satisfy the needs of consumers and to have high profits. The development of Nestle faces new challenges that need strategic organizational structure. Based on the chosen strategy the organizational structure can be developed further.

References:

Література:


