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## A CASE STUDY ON EFFECTIVENESS OF ORGANISATIONAL STRUCTURES UNDER THE EFFECT OF GLOBALIZATION

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### Abstract

This article highlights the problem of company's success in today's economic and globalisation context characterized by highly competitive and mostly global markets. In order to keep or develop their market position the enterprises need to adopt quickly the global changing market rules (e.g. pricing models due to new or cheaper market players, organisational structure based on "think global - act local", as well as change of market demands in quality and time). One solution to this problem is the development of a tailored organisational structure, based on the business model of the company. Therefore, the organisational design methodology might be useful to understand this complex phenomenon, to measure it and to adopt the business model on the market demand and economy situation (Luthans, 2009). The aim of this paper is to point out the different common organisational structure models and to evaluate it with a case studies methodology in the manufacturing industry. Furthermore, we will describe a new possible form of organisation structure, a mixed form of different approaches that is nowadays used to set it up by the leadership team. This paper used two research methods, namely: *the expert method* - and *the empirical method* - using a questionnaire with questions and ranking of answers, a representative sample of companies to check the current state of the organisational structure and to offer suggestions for improving with another organisational structure.

### Keywords

Globalisation, Organisation Structure, Functional Structure, Geographic Structure, Product Structure, Customer Segment Structure, Channel Structure, Process Structure

### JEL Classification

L10, L19, L20, L21, L22

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## **Introduction**

Globalisation is an extensively studied topic in the literature and there are many definitions of economic globalisation. In the last years, hardly any other development had such a high impact on the economic dynamism as the accelerating internationalization of markets and companies. Globalisation has gone far beyond their development on economic effects. This causes changes in the global, social, economic and political life for natural as well as legal persons. (Kommission, 2002).

Countless discussions about globalisation characterized the past years. Globalisation is attributed with a real, contemporary and psychological background (Maier, H. 2007). In public discourse since globalization boost of the 1990th, it has economic connotations. In this article, we define globalisation as particular linked to increased foreign direct investment, transfer of production capacity across national borders, increased importance of financial markets and transnational corporations as well as the separation of value chains into more nations. (Bernerburg & Niederbacher, 2007). The process of cross-border activities, which stimulate internationalization, have resulted in a new competitive environment for businesses and the operating model of companies in general (Theurl, 2007).

Not only the theoreticians study globalisation and reorganisation but also the practitioners and researchers deal with it mainly because of its relevance to keep the market position for a specific enterprise or furthermore to extend the business on a global perspective. To achieve these objectives companies need often to reorganize their business model, organisational structure and adopt the changing market rules due to globalisation effects (Pläging, 2015).

A widely known quality expert, W. Edwards Deming (Maier et al., 2013), incorporated his first challenge in a quote: "*You can't manage what you can't measure*". However, there is no unique strategy how to reorganize a company. To develop an effective framework for the measurement of the degree of reorganisation, the following aspects must be understood: a new perspective on the measurement of the organisation structure and performance is necessary. A pre-assessment is necessary, which can be achieved through a series of questions, such as: How good and effective is the current operating model to achieve the business strategy? Is the operating model well supported by the organisational structure in place? Is there a clear definition of organisational structure and a unique understanding how it should work, is the leadership efficient and let us name it flexible enough in decision making within this structure? Are the organisational structure and organisational processes, which matter measured? Do they assess the organisational structure within the past three to five years? Do they have clear design principles defined, which are the key success factors for the organisation? There are no "magic indicators" to measure the success of organisational structure; the organisational set-up is too important not to be measured accurately.

### **1. Research methodology used for assessment of organisational structure in industry**

From January 2016 until October 2016 we have conducted 30 interviews in medium sized companies at the manufacturing industry with a structured questionnaire on this topic.

Three questions to rate from 1 (excellent) down to 5 (inefficient) these questions. Furthermore there was one open question asked, about what would be a proper approach to set-up a different than these six structure examples. There they came up with interesting

answers, which can be used as a trend and should be more evaluated in the future on these outcomes.

Based on six typical organisational structures, which we can find in the literature (although there are many variations on these six schemes – *Understanding Organisations Part 1*) we ask about the effectiveness, the leadership power, structure to be successful on a global market view. The interviewees ranked these three answers and we made up a weighted average out of this answered, which are presented below in the authors charts. The fourth question is presented separately, which was about to come up with ideas for a different organisation structure. Therefore, we will show a graphic as well to and we are going to describe them.

Each of the graphic shows two organisational structures and the outcome of the question rated in a weighted average. The number 30 means that there are 30 responses to the questions. We asked 30 management level persons at manufacturing industry, all of them answered each question.

## 2. Research results regarding the organisational structure in industry

The first figure shows the six typical types of organisational structures and gives a summary, overview about main benefits and challenges based on that specific structure.

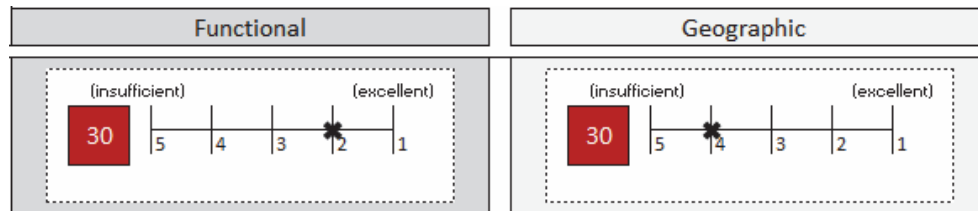
Organisation Type	Short Description	Main Benefits	Main Challenges
<b>Functional</b>	<ul style="list-style-type: none"> <li>Organisation aligned around functions or departments</li> <li>Organisation enables scale and typically provides the lowest cost level</li> </ul>	<ul style="list-style-type: none"> <li>High functional competence</li> <li>Highly specialised skills</li> <li>Efficient functional work</li> </ul>	<ul style="list-style-type: none"> <li>Risk of internal focus</li> <li>No bottom-line responsibility</li> <li>Complex cross-functional coordination</li> </ul>
<b>Geographic</b>	<ul style="list-style-type: none"> <li>Organisation aligned around geographic regions</li> <li>Enables organisation to effectively deliver on regional specific differences</li> </ul>	<ul style="list-style-type: none"> <li>Focus on regional needs</li> <li>Highly responsive to customers</li> </ul>	<ul style="list-style-type: none"> <li>Higher cost structure</li> <li>Requires significant coordination across functions and segments</li> </ul>
<b>Product</b>	<ul style="list-style-type: none"> <li>Organisation aligned around its products and services</li> <li>Enables innovation and through leadership and focus on product demand</li> </ul>	<ul style="list-style-type: none"> <li>Rapid product innovation</li> <li>Bottom-line responsibility</li> <li>Higher focus on customers</li> <li>Integration of functions</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient economies of scale</li> <li>Low build-up of competencies</li> <li>Interdependencies of products</li> </ul>
<b>Customer Segment</b>	<ul style="list-style-type: none"> <li>Organisation aligned around customer segments served</li> <li>Enables to focus on unique needs of customer segments</li> </ul>	<ul style="list-style-type: none"> <li>Focus on customer segment needs</li> <li>Integrated delivery stream</li> </ul>	<ul style="list-style-type: none"> <li>Higher cost structure</li> <li>Low build-up of competencies</li> <li>Barriers to coordination within functions to ensure consistency</li> </ul>
<b>Channel</b>	<ul style="list-style-type: none"> <li>Organisation aligned around distribution channels</li> <li>Enables the organisation to optimize delivery through each channel</li> </ul>	<ul style="list-style-type: none"> <li>Optimised delivery through each unique distribution channel</li> <li>Establish new distribution channels (e.g., internet vs. bricks and mortar)</li> </ul>	<ul style="list-style-type: none"> <li>Higher cost structure</li> <li>Cannibalisation of customer base</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>Enables the organisation to operate with complex processes within the value chain</li> <li>High level of cross functional integration is needed</li> </ul>	<ul style="list-style-type: none"> <li>Handling of complexity</li> <li>Integration of functions</li> <li>Higher focus on customer</li> </ul>	<ul style="list-style-type: none"> <li>Few synergies</li> <li>Difficult to build competencies</li> <li>Difficult bottom-line responsibility</li> </ul>

**Fig. no. 1 Organisation structures; summary made by authors**

The functional organisation structure means that the organization is aligned around departments and typically provides low cost rates. The geographical structure is about building up the functions in each geographic with more flexible in decision making in each region. The product organisation is built up as profit centre based on their products. This means concrete that each product or product group has an own organisation to be flexible to develop and push the product to the market. At the customer segment, structure the organisation is aligned to their customers and enabled an integrated delivery stream. The organisation at a channel view is organised and focused to optimize distribution. Process

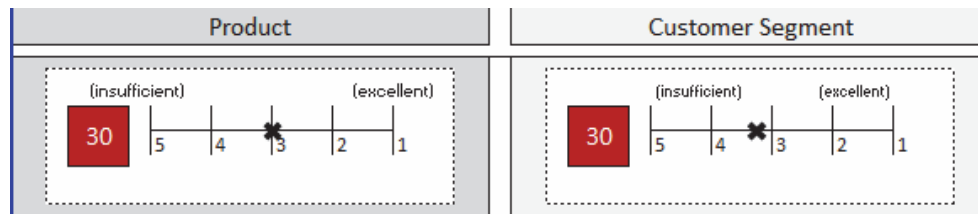
organisation has the aim to enable end-to-end processes along the value chain (e.g. record-to-report, order-to-cash, purchase-to-pay, hire-to-retire).

**2.1. Research results regarding the effective organizational structure of all of these six from organization structures**



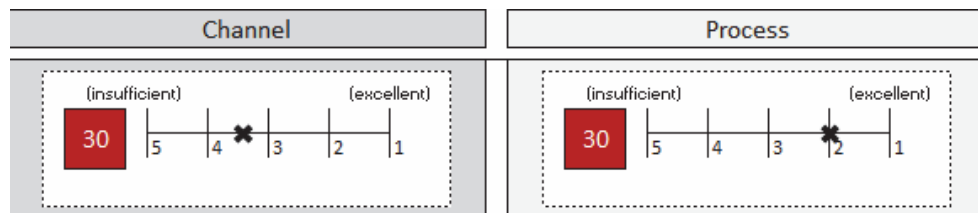
**Fig. no. 2 Organisation mixed structures according to the author's research**

The functional structure is rated in average as 2. This means its sufficient to built up funtional structure to operate the company international wide in good manner. The geographic view is not that efficient from the view of the interviewees. This means the control is in the regions and requires high coordination from the regions.



**Fig. no. 3 Organisation mixed structures according to the author's research**

The product oriented organisational structure is rated as a 3. This means is effective enough, stable. The customer segment organisation structure is rated as 3.25 which is slightly worse rated due to the higher cost structure and barriers to coordination within functions to ensure consistency.

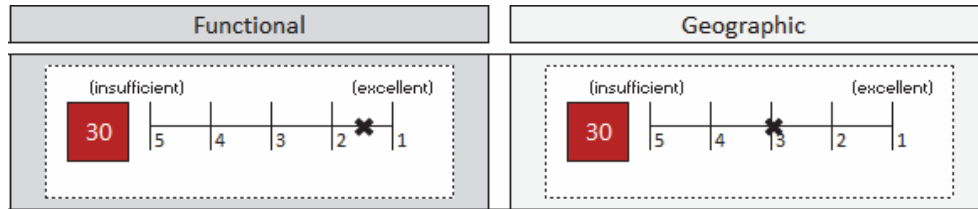


**Fig. no. 4 Organisation mixed structures according to the author's research**

The channel form is rated as the worse compared to the others. This is a result of the dependency of the buyer (e.g. companieds which produce plastic bottles are usually close to the locations of Coca Cola Company) and maybe that there is little independence but high integration and lower costs to have a good margin. Process organisation is rated highly, it

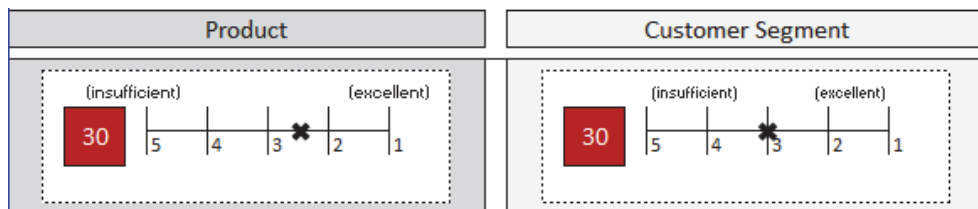
enables the company to think end-to-end in process interactions in the value chain and to link the competencies within this workflow (Mateescu et al., 2016).

**2.2. Research results regarding the most efficient leadership team in decision taking supported by organizational structure**



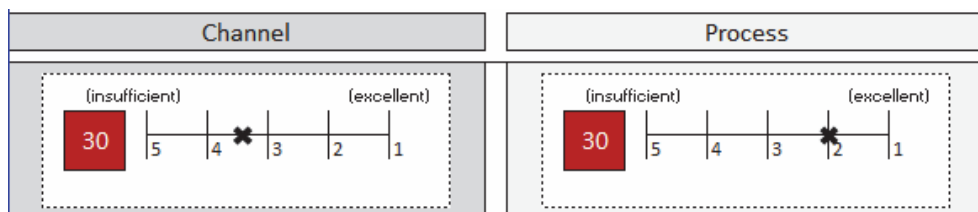
**Fig. no. 5 Organisation mixed structures according to the author’s research**

The functional form enables the leadership team to make decisions quickly top down to the functions, no matter where they are located. This is rated by 1.5. The geographic structure is rated with 3.0 because the regions have there regional head usually and so there is more hirachy in place.



**Fig. no. 6 Organisation mixed structures according to the author’s research**

The producte structure is rated as 2.5 in terms of decicion efficient leadership team decision making. The leadership team has the product/ portfolio heads to put through their decisions into the operating line. Customer segment is ratd less high as a 3, due to the focus on customer and not on own structures this is little bit independent and needs always to reflect highly the decisions if its in line with the main customers.

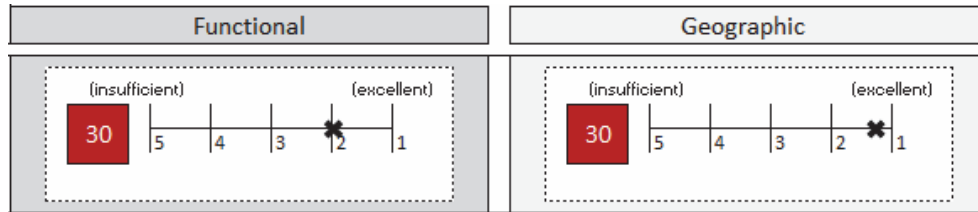


**Fig. no. 7 Organisation mixed structures according to the author’s research**

The Channel organizational structure supports only little the leadership team by decision making, as outcome from the interviewees 3.4. The channel is at the end of the value chain. So the leadership team focuses more on delivering not that much on production or products or competencies of the company. The processes view supports well the leadership due to

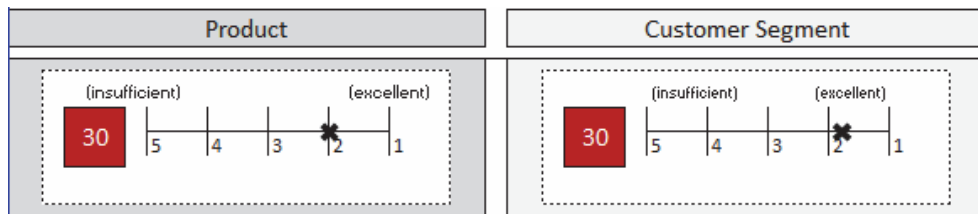
the end to end structure the workflow is approved as well as the decisions can be made and will be taken throughout the whole process. But due to the high integration this means lot of interfaces which can slow down the process to bring decisions made by the board down to the operative business.

**2.3. Research results regarding the most recommended organizational structure set-up to work in a global market environment or to go with a global strategy**



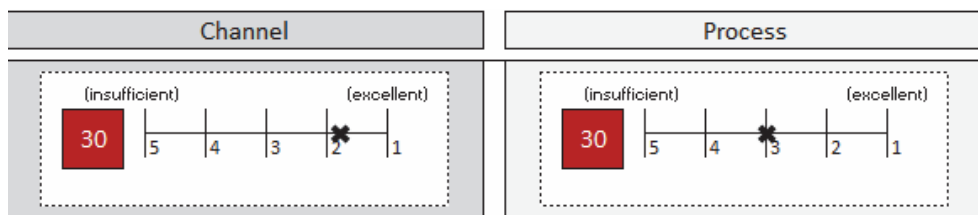
**Fig. no. 8 Organisation mixed structures according to the author's research**

The functional structure is rated highly by a 2. It supports a global organisation strategy. The geographic structure is the best to support global operations and rated with a 1.25. This is because it is adopted to the local or regional demand law and can operate more efficiently in a global context to deliver with local people the local demand on time. But the downside, coordination here, is not that easy from the headquarter.



**Fig. no. 9 Organisation mixed structures according to the author's research**

By product organisation, structure companies can enable good to deliver globally. If there is a product focus, then you have a focused view on product development also for different geographies. This is rated in the questionnaire from the 30 participants as a 2.0. Customer segments support highly the global structure from the interviewee's point of view, rated by 1.75.



**Fig. no. 10 Organisation mixed structures according to the author's research**

Same for the Channel, this supports global strategy due to the narrow linkage and integration with the customers at the product value chain. Process organisational structure is rated by an 3, because to have processes end-to-end in place can be complicated in an international view cause different accountabilities, legal structures and this without borders can cause lot of interfaces and exchanges which need time.

**2.4. Research results regarding a possible organizational structure combining all the advantages to work in the competitive globalization**

Organisation Type	Short Description	Main Benefits	Main Challenges
<p><b>Matrix</b></p>	<ul style="list-style-type: none"> <li>It's a mixture of a divisional model and functional model</li> </ul>	<ul style="list-style-type: none"> <li>Very flexible in resource and capability using, quick response to business requirements within a company, enables cross functional/ divisional/ regions thinking and working</li> </ul>	<ul style="list-style-type: none"> <li>Reporting conflicts, conflicts of interest within the different leads</li> </ul>
<p><b>Team/Project</b></p>	<ul style="list-style-type: none"> <li>Working within groups for a specific project</li> </ul>	<ul style="list-style-type: none"> <li>Flexible and resources related to the specific project requirements</li> </ul>	<ul style="list-style-type: none"> <li>Could cause responsibility issues between line and project lead</li> </ul>

**Fig. no. 11 Organisation mixed structures according to the author's research**

The open question to the interviewed persons was what would be a proper combination of different types of organization structure, based on their experiences. Most of the interviewees had responded that there is a big overlap of all when it comes to a matrix organisation. The Matrix can be a mixture of a divisional and functional model. There needs to be clear and well-defined governance in place. The governance describes the rules how the organization will operate, decision-making rules, reporting streams and lines, accountabilities and e.g. committees in place to work and to make decisions with responsible persons cross-functional, divisional or even regional.

**Conclusions**

The outcome of this paper and questionnaire was that there are four different scenarios, different organizational model approaches, which can support to deliver the company's products or services. From a global perspective, the global approach is recommended because in that way the company can focus on local markets with local people and act narrower to the local demand, rules and law. In general, the outcome is that there can be a mixed form of organizational structure used.

Most of the structures nowadays and even for the near future are more team or project based. Because most of the time the company needs resources and capabilities of cross functions to work on specific topics internally as well as externally for their clients. The most proper way is the matrix organization structure because this is a solution to support the line project manager with line management resources (Laegaard, 2006). Usually the line management has the decision making right in terms of development plan of employees and the project head has the lead of the functional use and deployment of the employees within the project period (Luhans, 2009).

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