

# Designing the multi-business corporation

Chapter 9

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# Portfolio composition

- Corporations compete with financial actors: the latter ones can replicate similar portfolio effects just buying stocks.
- Portfolio composition is strictly related to organizational design and organizational macro-structures: patterns of interaction between group of individuals.
- A micro-structure, instead, is individual's interaction within same group.

# Corporate as a collection of value chain activities

- A multi-business firm has many value chain
- A value chain is a series of activities to produce a given output for target users.
- Value chains can differ for one or more of such elements.

# Three basic principles for designing organizational structure

- Organizational charts are made of boxes and lines: boxes group activities; lines are the link among activities across groups.
- Boxes are sub-units.
- Boxes serve to realize a certain degree of integration among activities, especially when activities are geographically concentrated.

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- However, boxes must be contained: increasing the scale of boxes causes organizational scale diseconomies.
- Hence, organizational design requires the definition of boxes within boxes: organizations groupings can be seen as a series of subsequent layers.
- The discreteness of organizational design is extremely high.

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- Boxes foster integration of activities within them, while they are an obstacle to integration cross-boxes.
- When boxes boundaries coincide with geographical boundaries, the hindering effect results magnified.
- Linking elements provide a residual integration.

# Prototypes of organizational structures

- Pure forms: activities are grouped by one of the three dimensions (activity; output; users).
- The functional form emphasizes integration among similar activities cross value chains.
- The multi-divisional form emphasizes integration in respect to an outcome.
- The customer-centric form is better when the value chain orientation is toward a customer segment.

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- F forms are aimed to economies of scale, disregard a negative effect on scope, the other two do the opposite.



# The matrix form

- The idea is that the same activity could belong to multiple groupings (boxes) at the same time.
- Actually, a single dimension dominates over others: is a pure form with coordination mechanism.

# The hybrid form

- Direction of groupings can differ for different parts of the value chain: R&D is grouped for product line, as instance, and sales for customer segment

# When is it time to change the structure?

- The need arises both from internal and external factors: broadly speaking, e.g. a change in competitive environment.
- Other factors are: technological shifts; opportunity costs (when inefficiencies have passed the tolerance level).
- Organizational redesign can also be pursued when a certain informal organization is targeted, which means the latter will emerge after a time-lag after the change (to realign certain connections).

# International sales division

- When the bulk of their business lies in the domestic country, such division is the one which initiates the multi-business design: grouping international activities and foreign operations, as instance, with sub-units dedicated to individual countries.

# Transnational nature

- Particular geographies are specialized within a specific part of the value chain.

# Centralized back end

- It doesn't privilege the country of origin for front of the value chain, but, on the converse, for back end operations

# Distributed functions

- The novelty is the intra-functional specialization (as instance platforms for globally segmented innovations).
- Functions result grouped, but they are geographically distributed, which creates a need for horizontal integration.