



Designing Organizations for Strategy Execution and Scale

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Prior to entering academia, Mr. Kline was a manager at PricewaterhouseCoopers, where he completed valuations for mergers and acquisitions, business planning, and tax and financial reporting. He also worked as a consultant for CBIZ Valuation Group, Inc. and Curtis Financial Group, a regional investment bank.

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Course Agenda

1. Strategy and Scaling Foundations
2. Organizational Structure and Design Basics
3. Growth and Organizational Complexity
4. Control Systems
5. Alignment
6. Designing for Alignment and Scale

Strategy Refresher

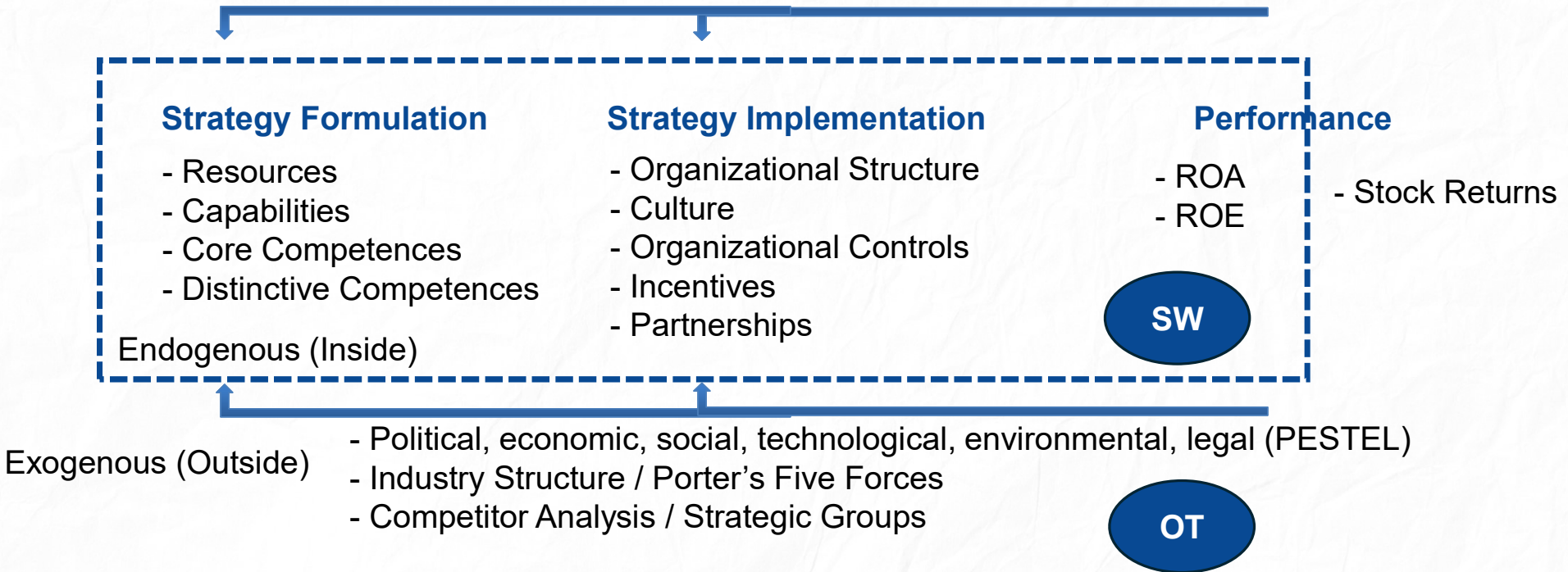
The Strategic Management Process

Top Management Team (TMT) and Board of Directors



Reflects Mission, Vision, Values

Feedback Loops



Types of Strategy

- **Corporate Strategy** – A strategic plan defining the industries and national markets in which an organization intends to compete.
- **Business Strategy** – A detailed plan outlining how a division, business unit, or organization will compete effectively against rivals within an industry.
- **Functional Strategy** – A targeted action plan to enhance each organizational function's ability to perform task-specific activities that add value to the organization's goods and services.

Corporate Strategy

Diversification

Vertical Integration

Partnerships, Acquisitions, Internal Development

Resource Distribution

Demand-side and Supply-side Dimensions Apply to All Decisions

- Related
- Conglomerate

- Demand-side
- Supply-side

- BFS
- JV
- Alliances
- M&A

- Financial
- Talent

Growth

Maintenance

Divesture

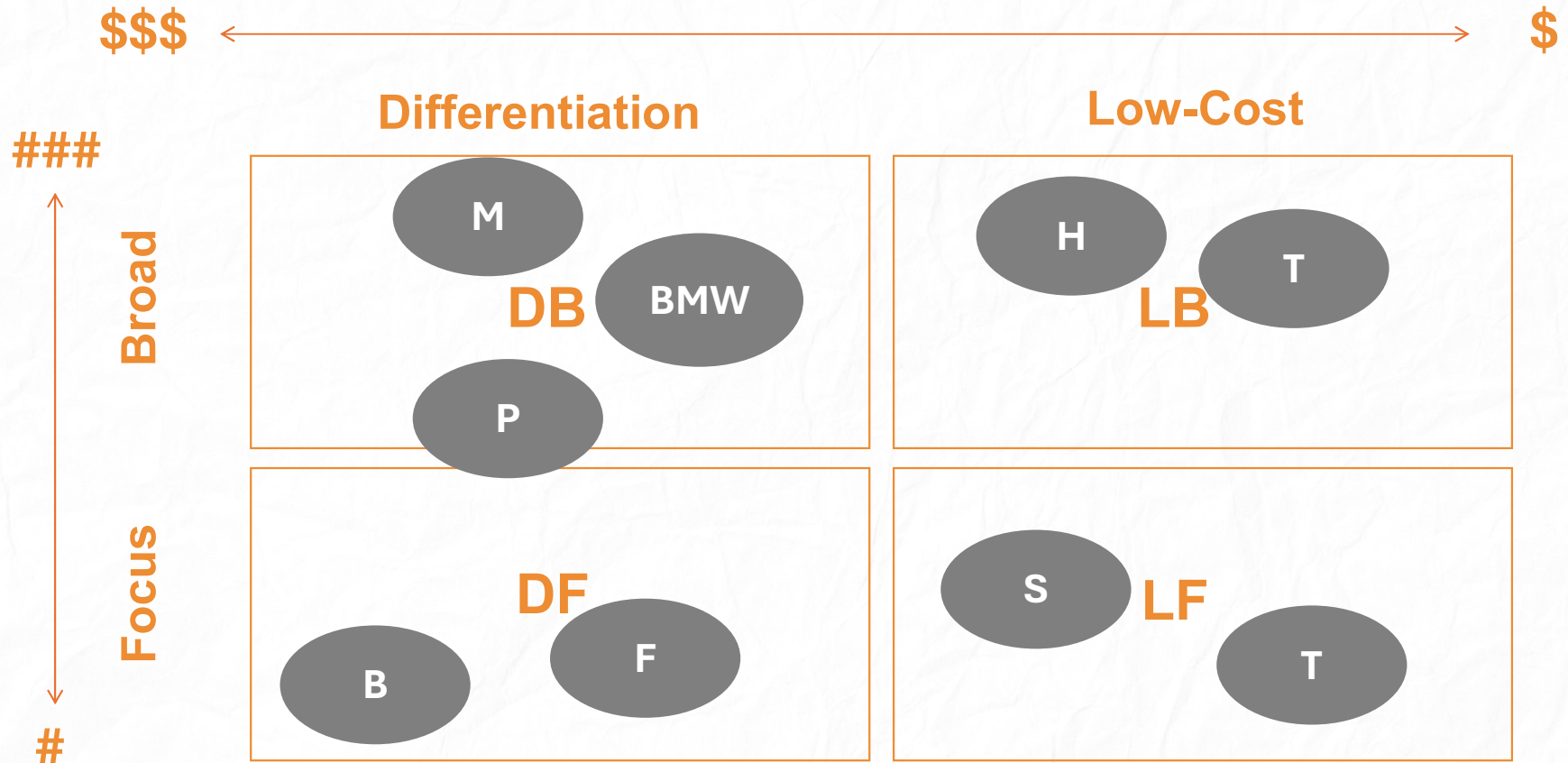
SBU 1

SBU 2

SBU 3

SBU 4

Business-Level Strategy



Low-cost Providers (Aldi)

- **Lower-Cost Inputs** – Securing cheaper resources through vertical integration or strategic sourcing.
- **Optimized Facilities** – Utilizing efficient infrastructure to reduce operational costs.
- **Selective Customer Acquisition** – Implementing profiling strategies to target profitable customers.
- **Cost Reduction Strategies** – Cutting expenses in R&D, customer service, sales, and advertising while maintaining effectiveness.

Differentiators (Whole Foods)

- **Premium Branding & Design** – Establishing a strong brand image through high-end aesthetics and reputation.
- **Exceptional Customer Service** – Providing superior support and personalized experiences to enhance customer satisfaction.
- **Robust Dealer & Distribution Network** – Ensuring widespread availability and premium service through authorized sellers.
- **Extensive R&D Investment** – Continuously innovating through research and development to offer unique features or attributes.

Source: Competitive Advantage: Creating & Sustaining Superior Performance. Michael E. Porter. The Free Press. 1998.

Scaling

Organizational Scaling

- Scaling means growing output or impact without proportional increases in cost or complexity.
- Scaling is the ability to grow revenue faster than costs by building a repeatable and increasingly profitable business model.

Scaling Decision Check

Should we scale?

- Is demand validated?
- Is the model profitable?
- Is the process repeatable?
- Can complexity be managed?

Why Scaling is Hard

- **Growth creates complexity**
- More people → coordination
- More products → integration
- More markets → variation
- **Complexity grows faster than structure**

“The essence of **exploitation** is the refinement and extension of existing competencies, technologies, and paradigms. The essence of **exploration** is experimentation with new alternatives.”
— James G. March

James G. March, “Exploration and Exploitation in Organizational Learning,” *Organization Science* 2, no. 1 (1991): 71–87.

Exploration vs. Exploitation

- **Exploitation vs. Exploration** (from James G. March)
- **Exploitation** → refinement, efficiency, execution
- **Exploration** → experimentation, variation, innovation
- This is about **learning and behavior over time.**

James G. March, "Exploration and Exploitation in Organizational Learning," *Organization Science* 2, no. 1 (1991): 71–87.

Exploration vs. Exploitation

Exploitation	Exploration
Efficiency	Innovation
Standardization	Experimentation
Control	Learning
Reliability	Adaptation

James G. March, "Exploration and Exploitation in Organizational Learning," *Organization Science* 2, no. 1 (1991): 71–87.

Scaling Example – McDonald's

Early on, a single restaurant relied on skilled workers and informal coordination. To scale globally, McDonald's redesigned its operations around **standardization and repeatability**:

- Simplified menu and processes
- Strict operating procedures
- Centralized supply chains
- Training systems (e.g., Hamburger University)

McDonald's scaled through **exploitation** (efficiency and control), but this also created tension when adapting menus to local tastes. This highlights the tradeoff between **standardization and flexibility**.

“The only way to win is to learn faster than anyone else.”
— Eric Ries

Eric Ries, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (New York: Crown Business, 2011).

Scaling Example - Amazon

Amazon invested in building internal computing infrastructure, then turned it into a **new business offering cloud services**.

- Completely new product category
- New customer segment (developers, enterprises)
- Uncertain demand initially

Amazon grew through **exploration** (experimentation and new capabilities), but this also created tension in integrating diverse businesses like retail, cloud computing, and media. This highlights the tradeoff between **innovation and organizational coherence**.

Extrapolation

- Exploration = search for product–market fit
- Exploitation = efficiency and optimization
- **Extrapolation = scaling profitably**
- Extrapolation...is the often-overlooked but critical phase between exploring many opportunities and exploiting one.

Jeffrey F. Rayport, Davide Sola, and Martin Kupp, “The Overlooked Key to a Successful Scale-Up,” *Harvard Business Review*, January–February 2023.

“The basic problem confronting an organization is to engage in enough exploitation to ensure its current viability and at the same time devote enough energy to exploration to ensure its future viability.”
— Michael L. Tushman and Charles A. O’Reilly III

Michael L. Tushman and Charles A. O’Reilly III, “Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change,” *California Management Review* 38, no. 4 (1996): 8–30.

When Do We Move to Structure?

- Growth is the objective
- Demand is validated
- The business model shows economic viability
- Scaling will increase complexity
- Informal coordination no longer works
- **Now organization becomes the constraint**

“Structure follows strategy.”
— Alfred D. Chandler Jr.

Alfred D. Chandler Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, MA: MIT Press, 1962).

Bridge From Strategy to Structure

Key idea: different strategies require different organizations.

- There is no one best structure.

Organizational Structure

Structure

- Defines authority & responsibility:
 - Clear decision-making hierarchy
 - Accountability at each level
- Enables coordination:
 - Clear reporting relationships
 - Efficient communication flows

Structure

- Division of labor – Who does what? How specialized will the work be?
- Coordination mechanisms – How do we integrate all the different activities being done at the firm? (i.e., meetings, procedures, committees, direct supervision, etc.)
- Decision rights – Who makes what decisions? Is there a hierarchy or do individual employees have some say?
- Firm boundaries – What do we do in-house and what do we outsource?
- Informal structure – How are the relationships between the people in the organization?
- Political structure – Are there competing agendas in the organization?
- Legitimate authority – Who has the ultimate authority?

Structure

- Recall our business-level strategy discussion
- Mechanistic structures → Cost leadership
- Organic structures → Innovation strategies

Tall Structures

- Clear career paths (pro)
- Specialized expertise (pro)
- Strong control (pro)
- Higher costs (con)
- Slower decisions (con)
- Communication silos (con)

Flat Structures

- Employee autonomy (pro)
- Fast communication (pro)
- Lower overhead (pro)
- Limited scalability (con)
- Wide span challenges (con)

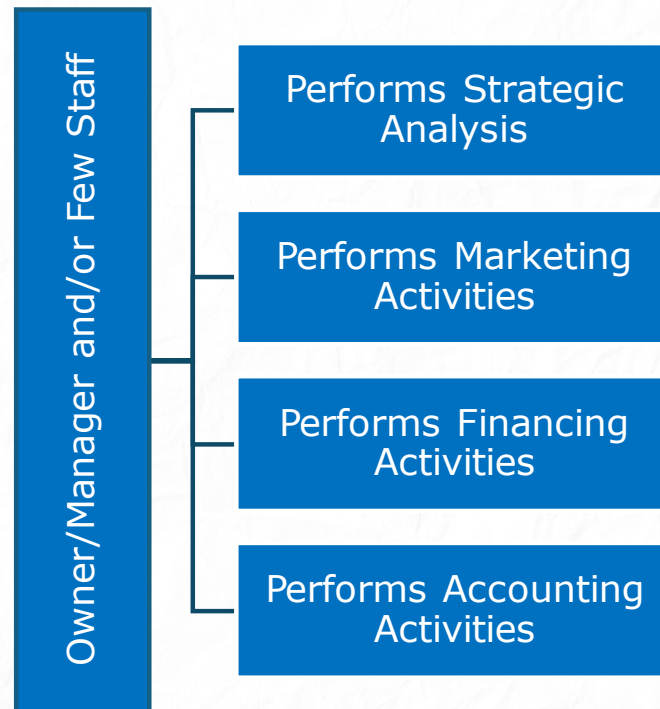
Span of Control Issues

- Manager capabilities: Leadership style and experience, time availability
- Employee factors: Training and motivation, desire for autonomy
- Job characteristics: Task complexity, work environment stability
- Traditional guideline: 5-6 direct reports

Types of Structure

1. Simple - Centralized, informal
2. Functional - Departments by function
3. Divisional - Semi-autonomous units
4. Matrix - Dual reporting relationships
5. Network - Flexible project-based connections

Simple Structure



Simple Structure

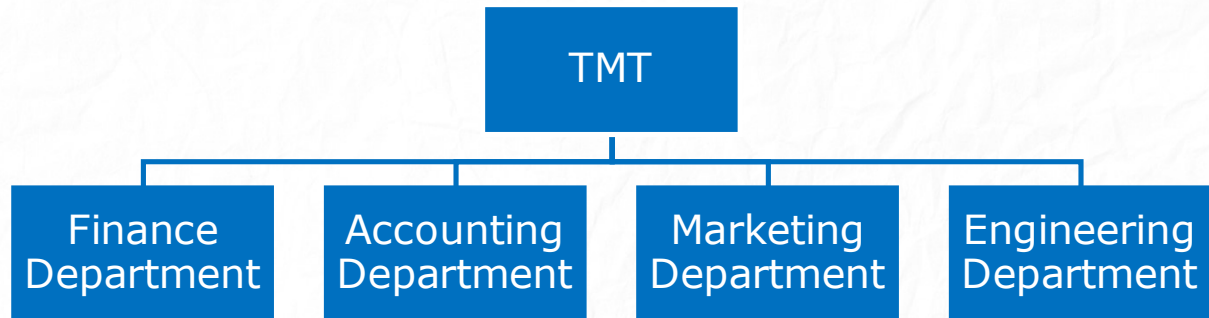
Pros

- Flexibility
- Quick reaction
- Employee empowerment
- Transparency
- Simple control mechanisms

Cons

- Lack of discipline
- Employee confusion
- Lack of controls
- Limited mobility

Functional Structure



The Functional Form

- Firms transition from a Simple to Functional
- Top executive must coordinate
- Functional areas: R&D, manufacturing, sales, etc.
- Highly centralized

The Functional Form

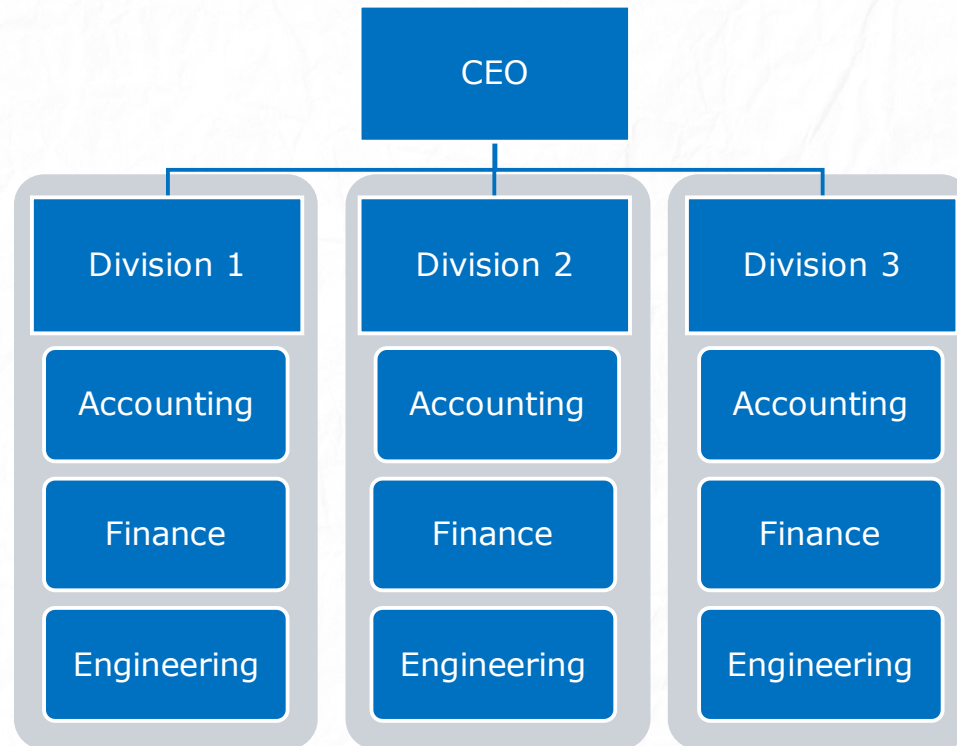
Pros

- Economies of scale
- Coordination/control in functional groups
- Professional development
- Allows firm to leverage specialist skills
- Works in a stable environment

Cons

- Potential group think
- Coordination across groups becomes difficult
- May foster narrow views
- Problems with creating uniform performance measures

Divisional Structure



The Divisional Form

- Firms transition from Functional to Divisional
- Focus on divisions as opposed to functions
- Organized according to outputs
- Each division is managed like an individual business
- Variation: Strategic Business Unit (SBU) – Combine similar divisions under SBU umbrellas for synergies
- Variation: Holding Company – Keep unrelated divisions separate

The Divisional Form

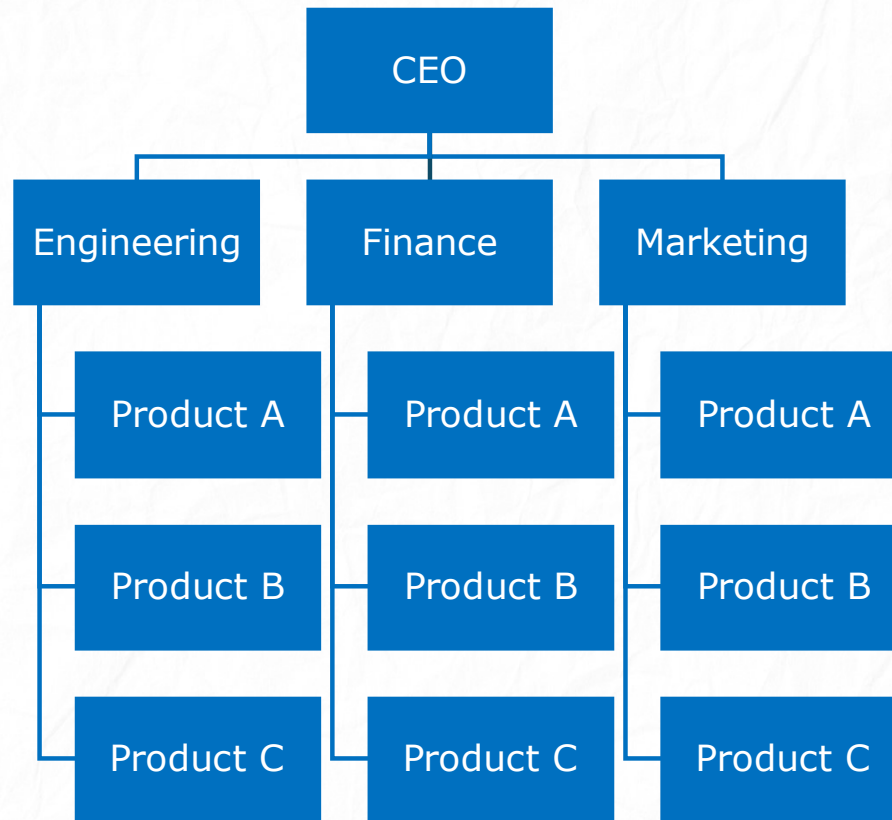
Pros

- Divisional managers can focus on their division
- More in touch with market
- Aligned goals

Cons

- Lose some economies of scale
- Higher costs
- Competition between divisions
- Places demands on TMT
- Different levels of quality

Matrix Structure



The Matrix Form

- Combination of functional and divisional structure
- Creates question of who has authority

Matrix Form

Pros

- Shared resources
- Flexibility
- Knowledge sharing

Cons

- Uncertainty about who is in charge
- Diffusion of responsibility

Network Structure

- More of a horizontal structure
- Lower level employees make more decisions
- Most adaptable structure
- Duplication of work is a problem
- Accountability may be a problem

Structure Selection Guide

Strategy	Structure
Cost Leadership	Functional / Centralized
Differentiation	Divisional
Innovation	Matrix / Network

Scaling Tension

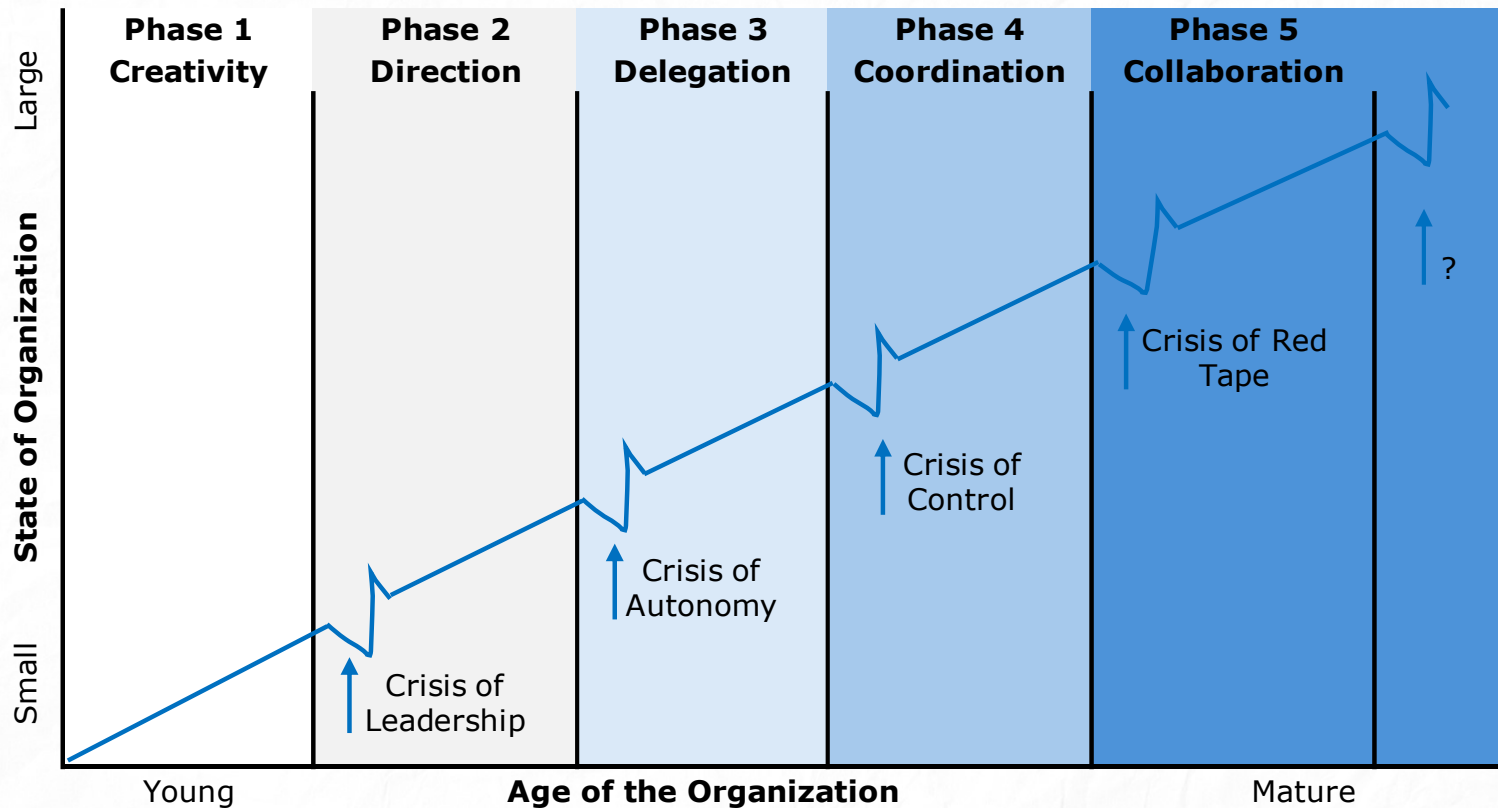
“Past solutions create present problems.”
— Larry E. Greiner

Larry E. Greiner, “Evolution and Revolution as Organizations Grow,” *Harvard Business Review* 50, no. 4 (1972): 37–46.

Scaling Tension

- Organizations grow through **phases**.
- Each phase ends in a **crisis**.

Greiner's Growth Model



Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Greiner's Model in Table Form

Phase	Crisis
Creativity	Leadership crisis
Direction	Autonomy crisis
Delegation	Control crisis
Coordination	Bureaucracy crisis
Collaboration	?

Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Creativity → Leadership Crisis

Phase 1: Creativity

- Informal, founder-driven
- Rapid innovation
- Little structure

Crisis: Leadership

- Founders overwhelmed
- Lack of coordination
- → **Solution: Direction (formal management)**

Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Direction → Autonomy Crisis

Phase 2: Direction

- Functional structure
- Centralized decision making
- Professional management

Crisis: Autonomy

- Decision making slows
- Managers constrained
- Limited local flexibility
- → Solution: Delegation (Decentralization)

Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Delegation → Control Crisis

Phase 3: Delegation

- Decentralized units
- Empowered managers
- Faster decision making

Crisis: Control

- Loss of top management control
- Inconsistent decisions
- Strategic misalignment
- → Solution: Coordination (Systems And Controls)

Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Coordination → Bureaucracy Crisis

Phase 4: Coordination

- Formal systems and processes
- Standardization
- Increased controls

Crisis: Bureaucracy

- Too many rules
- Slow decision making
- Reduced flexibility
- → Solution: Collaboration (Teams And Culture)

Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Collaboration → ?

Phase 5: Collaboration

- Cross-functional teams
- Matrix structures
- Strong culture

Crisis: ?

- Coordination overload
- Organizational complexity
- Diminishing returns to scale
- → Solution: New organizational approaches

Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50, no. 4 (1972): 37–46.

Greiner Summary

Category	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Management Focus	Make & Sell	Efficiency of Operations	Expansion of Markets	Consolidation of Organization	Problem Solving & Innovation
Organizational Structure	Informal	Centralized & Functional	Decentralized & Geographical	Line Staff & Product Groups	Matrix of Teams
TMT Style	Entrepreneurial	Directive	Delegative	Watchdog	Participative
Control System	Market Results	Standards & Cost Centers	Reports & Profit Centers	Plans & Investment Centers	Mutual Goals Setting
Management Reward Emphasis	Ownership	Salary & Merit Increases	Individual Bonuses	Profit-Sharing & Options	Team Bonus

What Greiner Teaches Us

- Growth creates predictable breakdowns
- Each solution creates new problems
- Structure alone is not enough
- Controls become necessary

Organizational Controls

Bridge to Controls

Growth → complexity → breakdown → need for:

- Structure
- Controls
- Redesign

“Management control is the process by which managers influence other members of the organization to implement the organization’s strategies.”

- Anthony and Govindarajan

Robert N. Anthony and Vijay Govindarajan, *Management Control Systems*, 12th ed. (Boston: McGraw-Hill/Irwin, 2007).

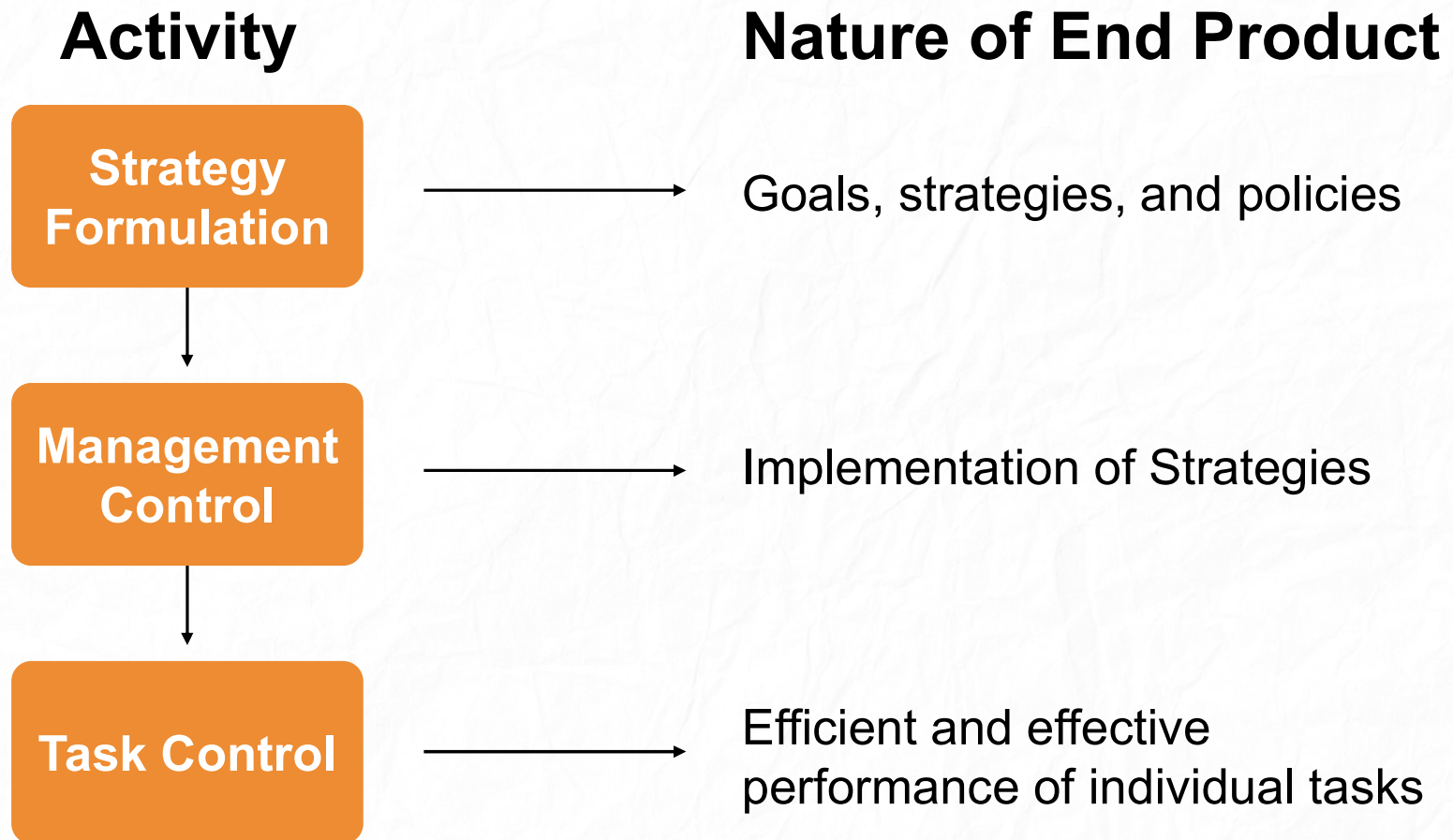


Exhibit 1.2. Adapted from Robert N. Anthony and Vijay Govindarajan, *Management Control Systems*, 12th ed. (Boston: McGraw-Hill/Irwin, 2007).

What Are Organizational Controls?

- Mechanisms used to **direct behavior and ensure alignment with strategic objectives**
- Guide decisions
- Reduce variability
- Enable coordination at scale

Why Controls Matter

- **Scaling requires control**
- More people → less direct oversight
- More complexity → more variability
- More autonomy → more risk
- → Controls create **predictability and alignment**

Types of Strategic Controls

- 1. Input Controls** - Hiring, training, selection
- 2. Behavior Controls** - Rules, procedures, supervision
- 3. Output Controls** - KPIs, targets, performance metrics
- 4. Clan Controls** - Culture, norms, shared values

Control Level/Type

Level ↓ / Type →	Input	Behavior	Output	Clan
Strategic	Leadership selection	Governance processes	Strategic KPIs	Culture, values
Management	Hiring, training	Policies, procedures	Budgets, targets	Norms across units
Task	Skills, tools	SOPs, supervision	Productivity metrics	Team norms

Controls and Scaling Tension

Misalignment isn't just structural. It can be:

- Wrong level of control
- Wrong type of control

Controls and Scaling Tension

- Controls enable efficiency, reliability, and coordination
- But can constrain innovation, experimentation, and speed

Controls and Strategy

Different strategies require different weighting of controls:

- Low-cost strategy → behavior + output controls
- Differentiation strategy → input + clan controls

Alignment

Bridge to Alignment

Organizations don't fail because they lack:

- Strategy
- Structure
- Controls

Firms fail because strategy, structure, and controls are **misaligned.**

What Is Alignment?

Alignment, the degree to which the following reinforce each other:

- Strategy
- Structure
- Systems
- Culture

Tushman Model

**Strategy → Formal Structure → Informal Structure
→ Performance**

- Strategy: What we are trying to do
- Formal: Structure, processes, controls
- Informal: Culture, norms, networks
- Performance: Revenue, profit, efficiency measures

David A. Nadler and Michael L. Tushman, "A Congruence Model for Diagnosing Organizational Behavior," in *Organizational Behavior*, ed. J. Richard Hackman, Edward E. Lawler III, and Lyman W. Porter (New York: McGraw-Hill, 1977).

Examples of Misalignment

- Innovation Strategy + Tight Controls
→ No experimentation
- Decentralized Structure + Centralized Decisions
→ Slow and confusing
- Customer Focus Strategy + Cost Metrics
→ Poor service

Diagnostic Questions

Where is the mismatch?

- Strategy vs Structure
- Structure vs Controls
- Controls vs Culture

Redesign

Star Model for Redesign

Jay R. Galbraith tells you what to design;

Strategy — Direction and goals

Structure — Roles and reporting relationships

Processes — Information and decision flows

Rewards — Incentives and performance systems

People — Talent and capabilities

Jay R. Galbraith, *Designing Organizations: Strategy, Structure, and Process at the Business Unit and Enterprise Levels*, 2nd ed. (San Francisco: Jossey-Bass, 2002).

Levers of Control

- Robert Simons tells you how to use control within Galbraith's Star Model design.

Robert Simons, *Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal* (Boston: Harvard Business School Press, 1995).

Levers of Control

- Dynamic managerial system
- Answers: How do managers use controls?
 - Inspire (belief)
 - Constrain (boundary)
 - Monitor (diagnostic)
 - Engage (interactive)

Inspire (Belief Systems)

Purpose

- Inspire and guide behavior

What It Includes

- Mission and values
- Strategic intent

Managerial Actions

- Communicate strategy clearly
- Reinforce through leadership behavior

Constrain (Boundary Systems)

Purpose

- Define limits and manage risk

What It Includes

- Codes of conduct
- Risk limits

Managerial Actions

- Define “No-Go” areas
- Enforce rules consistently

Monitor (Diagnostic Controls)

Purpose

- Track performance against targets

What It Includes

- KPIs and metrics
- Budgets and targets

Managerial Actions

- Set clear goals
- Monitor results and correct deviations

Engage (Interactive Controls)

Purpose

- Enable learning and adaptation

What It Includes

- Strategy reviews
- Leadership dialogue

Managerial Actions

- Engage in key discussions
- Challenge assumptions and learn

Control Types vs Levers of Control

Control Types

- What controls exist
- Mechanisms
- Static

Levers of Control

- How controls are used
- Managerial attention
- Dynamic

Full Course Model

Strategy

- Scaling
- Structure
- Growth (Breakdown)
- Controls
- Alignment
- Design
- Performance

Questions?

Appendix

Other Concepts to Integrate

- Intrapreneurship
- Value propositions
- Broad vs. focus
- Outsourcing and firm boundaries
- Lean start-up
- Communication management
- M&A integration