

Building a Vocabulary of Change
Divisional structure

a formal design choice that groups people together in units based on common products, services, or customers.

All activities associated with a particular product or families of products are brought together in a divisional unit. A general manager, often a senior vice president, divisional president, or managing director, sits atop each unit. That structure is depicted in Exhibit 6-2 for a prototypical software developer.

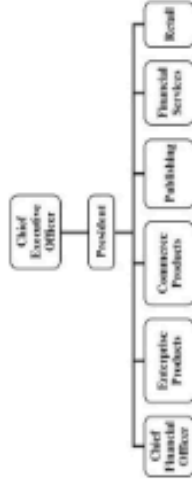


Figure 6-2 Divisional Organization Chart.

Another divisional option is to adopt a geographically focused structure. To reinforce geographic responsiveness, a fast-food chain, which is essentially a single-product operation, can create separate geographic divisions. McDonald's non-U.S. operations are subdivided into four regions: Asia/Pacific/Middle East/Africa, Canada, Europe, and Latin America. The company does so because executives believe that important differences exist in these multiple regions—in customer tastes and expectations, in supplier relationships, in government regulations, and in financial and labor markets—that require a differentiated response.

As we saw in the case of Macy's, regional structures may also be called upon to bring greater focus on local markets even within the same country. Differences in taste, style, and customer preferences do exist across regions. By creating 69 geographic districts, Macy's enhanced local autonomy which allowed for local responsiveness. The districts were not entirely autonomous, however, with corporate headquarters in Cincinnati still providing some centralized support functions.

Theory into Practice

Divisional structures enhance coordinated focus on the marketplace but make integration across highly autonomous divisional units difficult to achieve.

The object of the divisional structure, whether it is based on products, customer groups, or geographic locations, is to reinforce a market focus. Product divisions pay close attention to the expectations and needs of customers for their particular offerings, while geographic divisions can attend to the special requirements and habits of the customers in their regions.

It is precisely that focused attention on the external marketplace that, it is hoped, allows companies organized divisionally to meet the challenge of coordination faced by functionally structured companies. By concentrating on a clearly defined and understood market segment, divisions seek to win by offering new products and services. Rapid responsiveness to shifting market realities is the goal.

Changing from a functional to a divisional structure is not cost-free. Functional organizations seek the economies of scale; divisional organizations can be thought of as doing the opposite. In pure form, each functional activity is repeated in each division.

Adopting a divisional structure is meant to shape market-focused behaviors. It is not, in and of itself, any guarantee of true responsiveness. Remember, each product division is a self-contained functional organization. The problems often associated with functional organizations—internal focus, poor coordination, sluggish response time—can accrue over time in a product division. In multidivisional organizations, problems of coordination may arise across and between divisions. In order to respond to such problems, organizational leaders may now seek a kind of collaborative balance between functional and product divisions.

Theory into Practice

Functional silos can exist within divisional structures.

Dual Focus

Leaders opt for a functional structure in order to emphasize efficiencies and depth of technical know-how and experience. A shift to divisional structures helps reinforce external focus on the marketplace. However, many organizations cannot make an either/or choice between internal and external focus. As the external environment becomes increasingly complex, organizational leaders need to consider increasing the complexity of their internal structures.

One choice available to organizations is the matrix structure. Exhibit 6-3 depicts one type of matrix structure. In that organization, both divisional and functional structures exist in an overlapping fashion, allowing for dual focus.