Building a Vocabulary of Change

Horizontally linked structure

a formal design choice that groups people along the supply chain activities and processes that produce, market, deliver, and service the firm's offerings.

Horizontally linked structures usually supplement rather than replace existing functional or product structure in an organization. Dell Computers, a pioneer in supply chain linkages, relies on what founder Michael Dell calls "virtual integration." Dell focuses its attention on "how we can coordinate our activities to create the most value for customers."[8] Companies as varied as Zara, Wal-Mart, Southwest Airlines, and Shouldice Hospital call upon horizontally linked structures to coordinate supply chain activities in order to provide customers with a unique experience and their companies with a unique competitive advantage.

Zara, a fashion chain owned by Spain-based Inditex (which also owns and operates Pull & Bear, Massimo, and Dutti, among other retail formats), has succeeded by organizing activities around its supply chain. Starting with a clearly stated strategy—a focus on the ever-changing tastes of trendy young shoppers—Zara created raw material and design teams that could deliver their newly designed products into Zara retail stores within 3 to 15 days.[9] An organization chart for Zara is presented in Exhibit 6-4.

More traditionally structured apparel companies, where activities in the supply chain are separate and unlinked, often take up to a year to move from design to sale. Given the dynamic tastes of the rather fickle consumer base for fashion, slowness often leads to unused inventory, price-slashing sales, and waste.

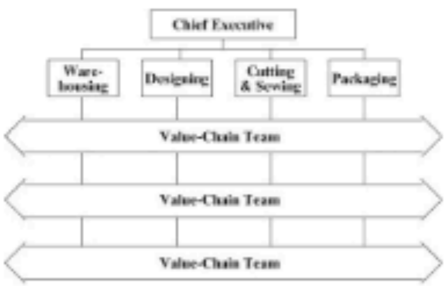

Exhibit 6-4 Horizontally Linked Structure at Zara.

Theory into Practice

Organizations can use cross-functional teams to achieve linkages across the various and interdependent activities of their supply chain.

Organizations that have pioneered horizontally linked structures typically started with a clear strategic focus on their supply chain. It has been far more difficult for older, traditionally organized companies to respond. Delta's effort to create its own low-cost airline, Song, to compete with Southwest Airlines fell flat. Marks & Spencer tried and failed to compete with Zara for the young, fashion-trendy customer. Kmart has repeatedly slashed prices to compete with Wal-Mart while undermining its own profitability.

The difficulty seems to lie not in any formal structural change but in the organizational context that supports and reinforces the structure. Long-standing functional arrangements have cemented patterns of employee behavior that remain unchanged despite efforts to create horizontally linked activities.

No structure, whether it is horizontally linked, matrixed, or divided into divisions or functions can, in and of itself, provide an organization with distinctive competitive advantage for the simple reason that structures are not and cannot be distinctive.

The Role of Structural Intervention in Implementing Change

When Lou Gerstner took the reins of an ailing IBM, he made a strategic decision: derive competitive advantage from the size and scope of his global operation.[10] Rejecting suggestions that he spin IBM off into a number of smaller companies, he sought instead to create an integrated global organization.

Gerstner's initial challenge in pursuit of that strategy was to integrate IBM's overseas operations with the base of the company. What was often known within IBM as a "religion of decentralization" had led to highly autonomous country general managers who reported to powerful regional executives. The head of IBM France, say, ran what amounted to a largely independent operation.

IBM's decentralized structure worked wonders for the company. Country managers could focus on their own regions and grow the business based on local responsiveness. But if local responsiveness was the benefit of decentralized structures, the cost was low collaboration. Employees in non-U.S. operations had come to think of themselves as working in and for their own home country company. *I work for IBM France, not IBM.* Little connection existed between the country-based operations and the corporate entity.

IBM customers provided the trigger for change. Global customers such as American Express complained about interacting with what seemed like different mini-IBMs in each country rather than one IBM with a global presence. Give us one face for IBM globally, they said, not many faces for each IBM national operation.

Gerstner agreed that the lack of global interaction posed a problem: "Each country had its own independent system. In Europe alone we had 142 different financial systems." The status quo simply did not allow for the seamless global responsiveness that Gerstner's new strategy and IBM's global customers demanded. "Customer data could not be tracked across the company. Employees belonged to their geography first, while IBM took a distant second place." This, Gerstner believed, *had* to change and change fast if his strategy of global integration was to succeed.

As a former employee at the global consulting firm McKinsey & Company, Gerstner had experienced what he believed to have been an effective approach to globalization. Customer-focused global teams transcended national borders, allowing seamless responsiveness to global customers. To help IBM achieve that same global seamlessness, Gerstner turned to Ned Lautenbach, head of non-U.S. sales. Gerstner and Lautenbach would pursue their strategy with a globally focused, customer-centered organization.