A Synthesized, Unique Theory to Describe and Explain an Organization Design for Wal-Mart in Europe

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ABSTRACT

On the basis of matching structure to strategy, this study discusses various organization design theories and compares the assumptions on which the theories work. A theoretical model of organization design derived from the literature is proposed for application. The study identifies and synthesizes a theory unique in describing and explaining the specific organization design that satisfies and matches Wal-Mart's vision of "doing it the Wal-Mart way" in Europe. The organization design developed for this study is a hybrid of the organic and mechanistic model, idealized and unique, but not necessarily impractical or unrealistic.

INTRODUCTION

Wal-Mart is rapidly expanding globally, using its cost-leadership strategy to penetrate new international markets. The company's global strategy is to take valuable competencies to foreign markets or develop these competencies in foreign subsidiaries (Tierney, 2004). Wal-Mart has served the global marketplace from a single low-cost location, which may not be wise. Choosing a global strategy necessitates choosing a customized organization design.

Strategy is a force that influences design (Chandler, 1961). Developing a strategy that structures the organization according to its capabilities has become a challenge because strategic thinking has far outdistanced organizational potentials (Bartlett & Ghoshal, 1990). Specifically, complex organizations with globalization on their agenda may fall into the strategic trap of trying to oversimplify and minimize complexity (Bartlett & Ghoshal, 1990). However, the response to a complex strategy is not necessarily a complex organization design.

Organization design needs to create an organization structure that assigns its members to specific value-creation tasks and roles and specifies how these roles and tasks are to be linked together in a way that increases efficiency, quality, innovation, and responsiveness to customers (Biggiero & Laise, 2003). Three basic choices are involved when managers design an organization's structure. First, distinctive competencies and a particular strategy have to be pursued. Second, authority

and distinctive competencies must be allocated to functions and divisions. Finally, the level of coordination or integration between functions and divisions need to be increased (Chandler, 2004).

Purpose and Scope

Wal-Mart's international strategy is "doing things the Wal-Mart way" which includes its domestic strategy of one-stop shopping, everyday low prices, and a satisfactory refund policy (Saporito, Boston, Gough, & Healy, 2003). However, Wal-Mart's relatively weak business in Europe, specifically in Germany, shows that the company has not been able to implement its strategy adequately. Instead of transplanting its U.S. business model and organizational structure directly to a new market, the organization should accept a modified, unique organization design for its European division. If activities and capabilities vital to the strategic success of the organization are to have the resources, impact, and decision-making influence needed, they must be centerpieces of the organization design. An inflexible design may result in a mismatch between strategy and structure and in implementation and performance problems.

The purpose of this study is to identify and synthesize an organization design theory unique in describing and explaining the specific organization design that satisfies and matches Wal-Mart's vision of "doing it the Wal-Mart way" in Europe. Although this study is not intended to serve as a detailed guideline for a new design, its primary purpose is to inspire vision and new goals for organization design. The design developed for this study is idealized and unique, but not necessarily impractical and unrealistic. The study investigates the nature and extent of organization design in the context of Wal-Mart's expansion in Europe.

This study begins with the discussion of various organization design theories. The second part compares the assumptions on which the theories work. The final part discusses the new, unique design theory for Wal-Mart identified by contrasting and excluding ineffectual theories.

ORGANIZATION DESIGN THEORIES

Several key elements are typically addressed when organization design theorists explain organizational structures. These elements are work specialization, chain of command, departmentalization, span of control, centralization and formalization, as well as knowledge creation, and a strategy-supportive design (Scott, 2003). The theories discussed in this study will be examined in light of these design elements.

A decade ago organization design theorists suggested that, with the competitive demands of the future, organizations needed to be organized around their core processes rather than their functional units (Mitroff, Mason, & Pearson, 1994). Specifically, to be able to pro-act and meet future challenges, today's multinational organizations should have the vision to develop strategies that support a design of organizational entities that can assess and design knowledge creation, quality management, and communications (Harris & Raviv, 2002; Mitroff, Mason, & Pearson, 1994).

Among the key competencies today's multinational organizations must exhibit, knowledge creation, global know-how, and environmental sensitivity need particular attention in the strategy/design paradigm. These competencies need to be continuously assessed and adjusted (Mitroff, Mason, & Pearson, 1994); the creation of organizational centers makes this possible. A focus on new conceptions of information and knowledge, as well as on new mechanisms is necessary to distribute information and knowledge (Birkinshaw, Nobel, & Ridderstrale, 2002; Mitroff, Mason, & Pearson, 1994).

Rational organization control systems may hinder organization learning because they can be restricted to management's views of methods and goals and therefore not flexible and open to new ideas (Scott, 2003). Many theorists suggest that the mechanistic model is generally synonymous with bureaucracy and the rational system (Astley, 1985). The "core processes" theory, on the other hand, points at the organic model, a structure at the other extreme of the organization design concepts. The organic model is decentralized with wide spans of control; it uses cross-hierarchical and cross-functional teams, has a comprehensive information and communication network, has low formalization, and entails high participation in decision making (Courtright, Fairhurst, & Rogers, 1989).

The mechanistic model at the other extreme is characterized by high specialization, centralization with narrow spans of control, rigid departmentalization, high formalization, and a clear chain of command (Astley, 1985; Courtright, Fairhurst, & Rogers, 1989). The following section will examine the assumptions related to the bureaucratic model.

The Multi-shaped Bureaucracy

The bureaucracy is an organization design characterized by traits of the mechanistic model. Weber's classic model of bureaucracy is an exceptional and thorough work on organization structures, specifically bureaucratic structures. His analysis of administrative systems conveys that only traditional and rational-legal authority relations are sufficiently stable to provide a basis for permanent administrative structures (Scott, 2003).

Rarely has there been skepticism or doubt about the bureaucracy's economic efficacy and usefulness (Child & McGrath, 2001; Reis & Betton, 1990). Researchers have examined bureaucracy from different perspectives, such as the shape of the hierarchy, forms of interdependence, administrative intensity, sequence of task performance, control mechanisms, and organizational size (Astley, 1985; Daft & Lewin, 1993). Astley's study suggests that organizations change their structures in 'quantum shifts' at specific points in time. Increases in organizational size create pressures which encourage the factorization of tasks and the substitution of reciprocal interdependence (ad hoc mutual adjustments) with sequential interdependence (Astley, 1985; Mintzberg & McHugh, 1985).

Meyer (1995), on the other hand, examines Weber's theory of bureaucracy in light of the differences between the institutional and cultural environment of American and European organizations. Meyer suggests that formal organizations in the United States emerged under institutional conditions thoroughly different from those Weber witnessed. European organizational-cultural conditions favored a centralized, hierarchical, obedience-based

organizational form with little uncertainty tolerance. In contrast, large organizations in the United States that operated in volatile markets favored flatter, less hierarchical, and more nearly decomposable organizations in which compliance was based on a temporary contract. The indifference toward the national and cultural idiosyncrasies of formal organizations may have stalled a productive inquiry in the field of comparative organization design theory and its cross-cultural perspective (Meyer, 1995).

Functional and process organization structures are usually associated with the bureaucratic design and are typically anchored around functionally specialized departments and strategy-critical processes. These functional structures are accepted as methods to match strategy to structure. Even though this design centralizes control of strategic results, it is also conducive to fragmentation of strategy-critical processes such as value chain activities or cross-unit coordination. A design that counteracts this drawback is the matrix.

The Matrix

The matrix design creates a dual line of authority (Cleland, 1981; Davis & Lawrence, 1978; Simon, 1983) and combines functional and product departments. Matrix structures, even though complex to manage and at times cumbersome, allow the organization to be structured in two different strategy-supportive ways simultaneously (Atkinson, 2003). The general matrix is structured with two or more channels of command, multiple lines of budget authority, and multiple sources of performance reward. The authority for a business or venture and the authority for a function or business process are overlaid. The resulting structure is a compromise between organizing solely around functional and process specialization or around product line or special venture divisions (Atkinson, 2003; Davis & Lawrence, 1978).

The terms "matrix management/organization" and "project management/organization" both refer to some type of cross-functional organization design and are frequently interchanged in the literature (Cleland, 1981; Simon, 1983). The cross-functional concept refers to a structure that most definitely brings people from multiple, usually separated, organizational functional areas to carry out an assignment on either a temporary basis (as in a project team) or on a rather permanent basis (as in a matrix organization). The fundamental disadvantage of the matrix is that ailments arising in conventional organizations may be inflated in the matrix. Illnesses to which the matrix is particularly susceptible are tendencies toward anarchy, power struggles, "groupitis" (Davis & Lawrence, 1978), excessive overhead, sinking to lower levels, and decision strangulation.

Hybrid governance forms seek to synthesize the virtues of traditional hierarchies and market control, and try to overcome the deficiencies of the traditional hierarchy (Bushe, Burnaby, & Shani, 1990; Mintzberg & McHugh, 1985; Reis & Betton, 1990). The primary building blocks within these businesses are cross-functional units. In vertically integrated organizations or in organizations with operations in various countries, the basic building blocks may include divisional or geographic business units.

The Business Unit

The standard building blocks in the decentralized business unit design are the individual businesses. Entrepreneurial general managers are put in charge of each business unit and have authority to develop and implement a business strategy (Galbraith, 2001). Each business unit is organized around functional or process departments and geographic divisions, depending on which structure suits the businesses strategy and key activities. To avoid divide of strategic and resource strength because of divisions, organization design should cut across boundaries and centralize functions at the corporate level (Galbraith, 2001).

The Boundaryless Organization

The trend of breaking big organizations into small separate units and at the same time gathering small businesses into cooperative systems blurred and obscured, or even eliminated boundaries between organizations. The boundaryless organization design is characterized by removed vertical boundaries, broken-down external barriers between the company and its customers and suppliers (Pikhala, Varamaki, & Vesalainen, 1999). Cross-hierarchical teams, participative decision making, and peer evaluation are typical characteristics (Scott, 2003). The organic model is the basis for the boundaryless organization. Often, the elimination of boundaries is more of a theoretical goal than actual organization practice. Nevertheless, there are some interesting organization designs that meet the boundaryless criteria, including network structures, modular and virtual organizations. Apart from the spatial, traditional form of the networking phenomenon, the virtual organization has largely grown out of the outsourcing strategy and vast opportunities that surfaced along with the development of information technology (Davidow & Malone, 1992).

COMPARING AND CONTRASTING ASSUMPTIONS

To develop a scientific base for organization design, theorists must compare the effectiveness of organizational structures and processes, and designers must create methods for implementing structures and processes. As this study is to determine an organization design desirable for Wal-Mart's European division, theories discussed in the first part of the paper will be compared.

Characteristics associated with the project and matrix concepts are the abandonment of the one-boss principle and the superimposition of some form of lateral authority on the traditional vertical hierarchy. Its vertical hierarchy is traditionally functional and the horizontal overlay typically consists of products, projects, or business areas. Many researchers position the matrix design at the center of a continuum between purely functional type organizations and purely product type organizations (Cleland, 1981; Davis & Lawrence, 1978; Ford & Randolph, 1992). The bureaucratic organization design is purely functional and can be the basis for competitive advantage when dominating in a function or process is a key success factor, or when routine and repetitive tasks enhance operating efficiency. However, on the other hand, this structure can be a breeding ground for authoritarian decision making, functional myopia, and narrow perspectives. Functional myopia can work against creative entrepreneurship, cross-functional competencies, and swift adaptation to changing market conditions (Reis & Betton, 1990).

Organizational structures anchored around strategy-critical processes can be effective only if the design is flexible enough to improve and institutionalize ongoing processes (Mitroff, Mason, & Pearson, 1994). The practical organizational sequence of strategic business units, on the other hand, is corporate to business to functional area within a business rather than corporate to functional area aggregated for all businesses. The business units of multinational organizations are typically the geographic units. A geographic organization design is well-suited to firms following different strategies in different geographic regions. However, the structure creates a problem in terms of the amount of geographic uniformity headquarters requires versus how much geographic diversity it allows. Another disadvantage of the geographic unit structure is that it adds another layer of management, increasing costs because of the duplication of staff services.

The boundaryless organization reduces strategic disadvantages of complex layers and bureaucratic inflexibility. If boundaries are removed, organizations can freely delve into globalization, and create strategic alliances and customer-organization links; the virtual system creates more flexibility, efficiency, and exploitation of resources. Organizations are free to simplify their structures and switch from design to design (Mowshowitz, 2002). However, issues of trust, social biases, national sovereignties, path dependencies, and organizational governance can become more complex in the virtual environment.

THE THEORY OF STRATEGIC ASSESSMENT CENTERS

To make strategic initiatives work better in Europe, Wal-Mart should adapt its organization design to European conditions. Wal-Mart's strategy of one-stop shopping, everyday low prices and a satisfactory refund policy is not catching on in Europe. So far, the company's weakest overseas business has been in Germany (Tierney, 2004). Earnings for some of the stores show a substantial loss (Saporito, Boston, Gough, & Healy, 2003). Wal-Mart attributes the losses to staffing and strategy implementation problems.

Wal-Mart's organization design is strictly hierarchical on the store, national, and international level. For example, a Superstore has one general manager; below him or her are two co-managers who have authority over assistant managers, who are reported to by department managers. Corporate headquarters is the ultimate authority. The same design is used on the national level and in Europe. Furthermore, all strategic positions in overseas stores are occupied by U.S. managers and all strategic decision for Europe are centralized and made at the corporate level. However, cultural idiosyncrasies warrant an idiosyncratic design.

Wal-Mart's global value chain activities should be to decentralize international decision making, to have native speakers in senior posts, to link global managers electronically, to adjust customer service to local conditions, and to use local executives to head operations in Europe. Obviously, strategy-critical activities and capabilities vary according to the company's geographic location, value-chain makeup, and competitive requirements.

To meet the challenges in Germany, it is proposed that the organization should be designed around an Executive Axis in Germany which has decision-making authority and its own

Knowledge Center, Implementation Center, Environment Center, as well as a Culture and Ethics Center. Teams from various functional areas, such as accounting, finance, human resources, and marketing will work at the centers to supplement the basic organization structure. The three main activities at the centers will be evaluating, planning, and creating. For example, at the Knowledge Center, one of the core activities will be the evaluation of the organization in terms of its competency to deliver optimal customer service and to continuously adjust and improve strategy and structure.

The Knowledge Center is also concerned with producing and distributing knowledge and information that will enable Wal-Mart to perform all of its functions in an integrated manner and to take advantage of synergies among them. The Knowledge center is not intended to add another layer of bureaucratic dysfunction; it is also not intended to take away entrepreneurial freedom of individual operating units. Its main purpose is to identify how the organization interacts internally and externally.

The key issue of the Culture Center is to recruit and train managers from the host country who are culturally and socially sensitive to the host country's customers. The organization cannot deliver quality service in foreign countries without a center for intercultural exchange.

Organizational structures anchored around strategy-critical centers and processes can be effective if centers are grouped around a main business center whose structure allows decentralized decision-making. Otherwise, resources are wasted because skills and competencies developed in the process centers cannot be exploited. Therefore, the business unit form in its traditional form, namely, corporate to business to functional area within a business, will not be used for the new theory. However, the geographic unit in its function of tailoring all strategic activities to the needs of the German market is well-suited and allows the business to improve functional coordination within the target market and enhanced practical coordination with the local customers and suppliers.

The unit structure itself can create a problem in terms of the amount of geographic uniformity headquarters requires. A structure of central decision making is not ideal because it does not allow much geographic diversity and strategic freedom. A Wal-Mart image that ignores cultural idiosyncrasies may drive German customers away. Another disadvantage of the geographic unit structure is that it adds another layer of management, increasing costs via duplication of staff services; therefore the business unit should be structured without boundaries. If external boundaries are removed, Wal-Mart can create strategic alliances and customer-organization links. A virtual network will help Wal-Mart to connect with European suppliers; they in turn can monitor inventory levels of their products. Also, outsourcing specific local products to German manufacturers will give Wal-Mart a competitive edge; the strategy of "doing it the Wal-Mart way" sometimes backfires in Europe because it is not the European way.

To successfully match structure to strategy, it is necessary to pinpoint the primary value chain activities, competencies and competitive capabilities. Then the organization should determine whether some value chain activities (especially non-critical support activities, but perhaps selected primary activities) can be outsourced. Strategy-critical activities and capabilities that require close collaboration with suppliers, distributors, franchisees, makers of complementary

products, or even competitors should be identified as main building blocks in the organization structure. Finally, the company needs to build organizational bridges to create relationships with outsiders.

Strategically, outsourcing non-crucial support activities and selected primary activities in the value chain can decrease internal bureaucracies, flatten the organization structure, heighten Wal-Mart's strategic focus, and increase competitive responsiveness. For example, Wal-Mart's organizational structure can be built according to a strategy of partnering with outsiders, quick delivery of products, fast and efficient distribution of products to geographically distant regions, intercultural know-how, and specific after-sale support service. Its organization design will support a strategy of developing resource strengths. If Wal-Mart picks up the concept of virtual organization, it needs to create a sense of trust in the system. The virtual system can definitely create more flexibility, efficiency, and exploitation of resources.

There will also be a bureaucratic element in this organization design. In the typical bureaucracy, every core process and every function is done in-house, including research and development, production, and sales. The bureaucratic element in this structure is in the stores. Associates will start the pyramid and report to department managers who report to store managers whose span of control will be relatively wide to facilitate communication.

The mechanism that integrates the new Wal-Mart design is the Executive Axis, composed of the Wal-Mart unit's top executives and the chairs of the four centers. The spirit of the leadership is collaborative. The centers also exercise participative management and play a vital role in terms of knowledge creation, innovation, assessment, implementation, and caring for the environment, the culture and ethics.

CONCLUSIONS

The purpose of this study was to identify and synthesize an organization design theory unique in describing and explaining a specific organization design that attempts to accomodate Wal-Mart's vision of "doing it the Wal-Mart way" in Europe. Various organization design theories were discussed and compared to find a unique hybrid theory that describes a design that matches Wal-Mart's strategy-critical activities. The design developed for this study is idealized and unique, but it can be developed into a practical structure. The theoretical model of this organization design derived from the literature is proposed for application to the international division of Wal-Mart.

The organization design based on the new theory "strategic assessment centers" is a good fit for wal-mart in germany. Even though it is based on the organic model to give it much flexibility, it has some mechanistic elements that are needed to adjust to the hierarchical environment. The strategic assessment centers will receive key resources because of their position in the organization's power structure and their subsequent political clout. It is essential that the primary value-creating activities and business processes are prominent in the organization structure; the right structure can create far-reaching efficiencies.

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