



# Characteristics of organizational structure relating to hybrid competitive strategy: Implications for performance

Enrique Claver-Cortés, Eva M. Pertusa-Ortega\*, José F. Molina-Azorín

University of Alicante, Department of Business, San Vicente del Raspeig Campus, P.O. Box 99, 03080 Alicante, Spain

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## ABSTRACT

This study examines the characteristics of organizational structure that relate to hybrid competitive strategies. Such strategies seek to obtain higher performance levels by simultaneously emphasizing high differentiation and low-cost levels. In addition, this paper analyzes the mediating role of competitive strategy in the relationship between organizational structure and firm performance. The study examines a sample of large Spanish firms belonging to different sectors. The findings reveal that hybrid competitive strategy influences firm performance positively. Similarly, organizational complexity and the existence of formalization positively influence hybrid competitive strategy, whereas centralization has a negative influence. Organizational structure does not exert a direct influence on performance, but an indirect one, through hybrid competitive strategy.

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## 1. Introduction

In the field of competitive strategy, some studies highlight the use of hybrid competitive strategies (which emphasize both low costs and differentiation) and defend their use to achieve a better performance (Acquaah and Yasai-Ardekani, 2008; Pertusa-Ortega et al., 2009; Spanos et al., 2004).

No study appears to be available that analyzes empirically the characteristics of organizational design that associate with the development of those hybrid strategies. Some studies point out that external pressure and competition force organizations to abandon mechanistic organizational forms and to design more flexible structures (Gulløv, 2006; Morris et al., 2006; Schilling and Steensma, 2001), but a central and important question is whether these organic, flexible forms are appropriate for the development of hybrid competitive strategies. Thus, a need is apparent for research on the attributes of organizational structures that relate to hybrid competitive strategies.

The study here examines the characteristics of organizational structure that relate to hybrid competitive strategies, which seek to obtain higher performance levels. In addition, the study analyzes the mediating role of competitive strategy in the relationship between organizational structure and firm performance.

This study aims to make several contributions. First, this study develops theoretical ideas with regard to the relationship between

hybrid competitive strategies and organizational design and their impact on performance. Second, from a methodological point of view, the model proposed in this paper uses a molar second-order factor to measure hybrid competitive strategy. In other words, the study conceptualizes hybrid competitive strategy as an emergent construct formed from formative strategic dimensions rather than a reflective construct (Diamantopoulos, 2008; Podsakoff et al., 2006).

The findings show that the existence of formalization, complexity and decentralization have a positive influence on hybrid competitive strategy, and the latter positively influences firm performance, which supports a mediating effect of the competitive strategy on the relationship between structure and firm performance.

The structure of the paper is as follows. The next section contains the theoretical framework and the hypotheses. The following section describes the study methods, after which is the presentation and discussion of the results. The final section offers the main implications and suggestions for further research.

## 2. Theory and hypotheses

### 2.1. Hybrid competitive strategy and organizational structure

The present section offers some arguments about how formalization, complexity and decentralization are related to a hybrid competitive strategy.

The relevant literature traditionally associates formalization with inertia, stability, and efficiency (Mintzberg, 1979; Moreno-Luzón and Lloria, 2008). High degree of formalization likely associates with low-cost strategies, whereas low degree of formalization likely associates with differentiation strategies (Miller, 1988). Nevertheless,

\* Corresponding author.

E-mail addresses: [enrique.claver@ua.es](mailto:enrique.claver@ua.es) (E. Claver-Cortés), [eva.pertusa@ua.es](mailto:eva.pertusa@ua.es) (E.M. Pertusa-Ortega), [jf.molina@ua.es](mailto:jf.molina@ua.es) (J.F. Molina-Azorín).

other studies reconceptualize formalization in more dynamic terms (Adler and Borys, 1996; Becker et al., 2005; Feldman and Pentland, 2003).

Formal procedures include the best practices that decision makers learn from experience, reduce ambiguity, and allow employees to deal more effectively with contingencies in their jobs (Adler and Borys, 1996; Jansen et al., 2006). Rules providing specific behavioral directives for members to follow generate cost savings through the reduction of money wasted and time lost, but can equally encourage collaboration and cooperation between individuals to facilitate differentiation (Cordón-Pozo et al., 2006).

The articulation of rules and regulations shapes the structure and content of interactions; these rules and regulations facilitate the circulation of the knowledge produced across different departments, nurturing them with new ideas and different viewpoints (Cohendet et al., 2004). Without a formalized structure, organizational members' attempt to improve differentiation may remain disorganized, infrequent, sporadic, or ineffective (Okhuysen and Eisenhardt, 2002). Thus, the content of rules may provide insights and cognitive material that firms can use to reduce costs and also to increase differentiation (Reynaud, 2005).

The literature about total quality management (TQM) points out that the analysis and evaluation of all the activities developed within the firm may generate a series of formal documents that lead to improved quality and to the avoidance of deviations from the established standards. As Beckmann et al. (2007) and Meirovich et al. (2007) show, formalization correlates positively with the quality of the products or services that the firm offers, which is a way to reduce costs and to improve differentiation at the same time.

Considering the above, formalization can simultaneously favor cost reduction and increased differentiation. Therefore, formalization likely has a positive association with a hybrid competitive strategy. H1: Formalization has a positive influence on hybrid competitive strategy.

Complexity is another dimension of organizational design that can play an important role in the development of a hybrid competitive strategy. The degree of vertical, horizontal, and spatial differentiation indicates the level of complexity of an organization (Burton and Obel, 2005; Fredrickson, 1986; Robbins, 1990). Horizontal differentiation, for example, may have its origin either in a high degree of division between the roles and functions performed within the enterprise (functional specialization) or hiring professionals who hold skills that are not easy to routinize (social specialization) (Robbins, 1990).

In both cases, greater specialization is likely to improve staff skills and abilities in the activities they perform. This process could be a way to encourage the exploitation of experience and learning economies, which may encourage cost reduction. Likewise, horizontal differentiation can promote the invention of new methods, technologies, or products (Mintzberg, 1979) because horizontal differentiation entails grouping together individuals who share a common knowledge base for the development of joint projects. These kinds of innovations (of processes or products) may favor both cost reduction (more efficient processes) and differentiation.

In complex organizations, the depth and diversity of the knowledge base stimulate creativity and increase awareness and cross-fertilization of ideas (Damanpour, 1991, 1996; Damanpour and Schneider, 2006) to offer more differentiated products or services. Aiken et al. (1980) point out that structural complexity can promote more proposals (ideas and new knowledge that can reduce costs or favor differentiation) for several reasons.

First, high levels of complexity indicate diverse bases of expertise, which may result in the identification of a wide range of problems (related to both costs and differentiation) and the availability of diverse kinds of information and perspectives about problem solving. Second, complexity also implies a diversity of interests that stimulate new proposals as the various occupational groups, departments, and

strata seek to improve or protect their position in the firm. Third, structural complexity makes possible, and may often require, a formal or informal assignment of special responsibilities for proposing organizational changes to particular roles and subunits to improve differentiation strategies or reduce costs.

Therefore, complexity can simultaneously favor cost reduction and increased differentiation and, hence, have a positive association with a hybrid competitive strategy. H2: Complexity has a positive influence on hybrid competitive strategy.

Decentralization is another dimension of organizational structure that can influence the development of hybrid competitive strategies. Decentralization fosters the incorporation of a greater number of individuals and organizational levels into the process of strategic reflection (Hall and Saias, 1980; Robbins, 1990). Thus, the more individuals become involved in the decision-making process, the more variety and more ideas will arise to improve differentiation strategies (Jansen et al., 2006). Participation in the decision-making process facilitates the understanding of decisions adopted and development.

Centralization reduces the likelihood that organizational members seek innovative and new solutions (Damanpour, 1991). When managers allow individuals to act autonomously the organization can achieve better business opportunities in relation to new products or services (Nonaka, 1988, 1994). Decentralization allows for the interplay between a variety of perspectives and leads to a rich internal network of diverse knowledge resources to reduce costs or increase differentiation.

During the development and implementation of a hybrid competitive strategy a wide variety of problems can arise related to both the low costs and the differentiation of products or services. Often, only individuals close to the source of a problem can generate high-quality ideas about how to solve such problems. Therefore, retrieval of accurate and timely information, as well as a large quantity of high-quality ideas, appears to require decentralization (Sheremata, 2000).

Similarly, decentralization may favor the development of spatially separate low-cost and differentiation activities, because it gives autonomy and flexibility to the different organizational units. In contrast with this outcome, centralization may increase costs because of the existence of time-consuming formal communication channels (Sheremata, 2000) and also reduce creative solutions and hinder interdepartmental communication and frequent sharing of ideas (Souitaris, 2001). Decentralization facilitates spontaneity, experimentation, freedom of speech, and circulation of ideas. Decentralized organizations emphasize the importance of empowerment and facilitate the assimilation of new patterns and behaviors (Fiol and Lyles, 1985).

Therefore, to favor cost reduction and increased differentiation simultaneously could be more difficult for a centralized organization. Consequently, one can expect centralization to have a negative association with a hybrid competitive strategy. H3: Centralization has a negative influence on hybrid competitive strategy.

## 2.2. Hybrid competitive strategy and firm performance

Although Porter (1985, 1980) argues against the simultaneous pursuit of low-cost and differentiation strategies, other authors show that low costs and differentiation may be compatible approaches (Hill, 1988; Murray, 1988; Wright et al., 1995), postulating the pursuit of hybrid, mixed, integrated, or combination strategies (Acquaah and Yasai-Ardekani, 2008; Kim et al., 2004; Spanos et al., 2004). As this paper explains below, a hybrid strategy is not only a viable strategy but can also be more profitable than pure strategies of low-cost or differentiation. Some studies provide empirical evidence of the positive relationship between hybrid competitive strategy and firm performance (Acquaah and Yasai-Ardekani, 2008; Kim et al., 2004; Leitner and Guldenberg, 2009; Miller and Dess, 1993; Pertusa-Ortega et al., 2009).

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