Relating Organization Strategy and Structure to Management Control Systems (MCS): A Study of Different Retail Formats

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Abstract—*The present study attempts to extend the organization strategy dimensions proposed by Miles and Snow(1978) to the organization structure dimensions of Pugh et. al (1968) and further to the Management Control Systems(MCS) dimensions of Simons (1987) for different category of retail formats. Data was collected from four different types of retailers namely Hypermarkets (HM), Department Stores (DS), Specialty Stores (SS) & Convenience Stores (CS). These organizations were first categorized into the strategy typologies of Miles and Snow(1978) on the basis of Organization structure dimensions of Pugh et. al.(1968) and later compared on Simons MCS dimensions. We took only Interactive and Diagnostic Control systems for this particular research. Statistical techniques like cluster analysis, Independent sample T-test and post-hoc analysis were used for data analysis. The Results were very insightful in terms of differences amongst different retail formats.*

Keywords: *Organization Strategy, Organization Structure, Management Control Systems, Retail Formats, Indian Retail*

1. INTRODUCTION

Strategy is the match an organization makes between its internal skills and the opportunities and threats by the external environment (Grant, 1991). Mangers have long been trying to align their organizations with the changes in the external business environment. But looking at the frequent changes in the environment, it is neither practically possible nor financially feasible to spend vast organizational resources in restructuring the organization's strategy with these changes (Luke, Walston and Plummer, 2004).

However, Formulating strategy alone doesnot guarantees the achievement of organizational objectives, there is a huge difference between strategy formulation and strategy implementation. According to Drucker, it is the correct design of structure that is of most significance in determining organisational performance. Similarly, MCS helps an organization to implement its strategy well, It is also highly affected by a change in an organizations external environment that also affects the organization Strategy. Management

Control System (MCS) has been defined by Anthony (1965), the father of MCS as *"the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization s objectives"*. Out of the different types of MCS, it depends on the management of an organization to choose and implement the kind of control system it wants to follow.

Retailers all across the world have been playing the vital role of making products available to the consumers. With the increased complications of Internationalization, technological advancements and changed consumer behaviour, retailers are facing new challenges everyday. Like any other sector of the economy, Retailers also align their internal and external environment to their best advantage. This particular research is built around the same concept.

2. LITERATURE REVIEW

Retail Formats

The Retail model that a retailer follows is relevant with reference to a particular time. Trends in Market Positioning, Competition and Marketing abilities are some factors that affect the retail format choice. Retail formats today have made the life of the customers hassle free and convenient. This has eventually resulted in aggressive competition amongst retailers and opened a gateway of metamorphic innovating store concepts in the market (J.Maronick & M.Stiff, 1985). Different retailers choose different formats of doing business. We have taken four retail formats for this study, Hypermarkets, Department Stores, Specialty Stores & Convenience Stores.

A *Hypermarket* is a large establishment combining the characteristics of a supercentre and a department store. These establishments are generally larger in size and cover 1, 00,000 sq ft or more floor space in a retail outlet. Their business

model focuses on high volume and low margin sales. They stock around 35, 000 to 60, 000 Stock Keeping Units (SKU). *Department Stores* stock high quality assortment with an emphasis on the length and breadth of the assortment. They give limited variety to the consumers and focus more on quality. *Specialty Stores* are highly specialized stores with limited assortment of products. They offer a vast array of product for every category of the goods that they deal in.

Organization Strategy & Structure

There is not one but numerous factors that are responsible for the efficient working of any organization. Alfred Chandler defines Strategy as, "the determination of the basic long term goals and objectives of an enterprise, and the adoption of a course of action and the allocation of resources necessary for carrying out these goals". Amongst many strategy types and typologies proposed by a large number of researchers, the one proposed by Miles and Snow et al (1978) are the most popular. In their book Organization Strategy, Structure, and Process (1978) they argued that the strategy followed by a company results from the way the company decides to address the three fundamental problems facing the Top management, The entrepreneurial, engineering (or operational), and administrative problems. And no matter what solutions different businesses opt to handle these problems, they suggested that many companies develop similar solutions. As a result they formulated four kinds of strategy typologies namely Defender, Prospector, Analyzers and reactors that organizations can be categorized into.

'Prospector' firms are the most proactive and pursue an aggressive strategy in reference to new markets. They constantly look for new markets and newer opportunities and are oriented towards growth and risk-taking. In contrast to the prospectors, organizations following a 'Defender' strategy have a narrow product offering and their domains are safe. They try to aggressively maintain their market position within their chosen market segment and try to keep competitors away by focusing on the improvement of their current operations. 'Analyzers' are somewhere in the middle of Prospectors and Defenders. They take the middle path by carefully analyzing and exploring new markets and at the same time maintaining their core skills, products and customers (Slater & Narver, 1993).

It is extremely important for an organization to structure itself according to the circumstances in which the organization finds itself and especially according to the tasks that it has to carry out. Each organization therefore chooses to structure itself differently. It helps in the efficient working of the organization and its people. An efficient structure denotes efficient working and healthy working relations amongst the people and departments. Every organization needs defined responsibilities, communication channels and procedures. It

determines how the responsibilities will be distributed in the department and resources allocated amongst them. Though a lot of work has been done on organization structure, but the dimensions proposed by Pugh et al.(1968) are the most popular. These dimensions are 'Formalization', 'Centralization', 'Standardization', 'Specialization', 'Flexibility', & 'Complexity of Workflow'.

Management Control System

Management Control System provides or lays down a mechanism for managers, where they gather information and make sure that the employees performances and behaviour are consistent with organizational objectives. Simons (1987 and 1990) proposed four levers of Control. Belief Systems, Boundary control systems, Interactive Control System & Diagnostic control Systems. For this particular research, we have chosen only Interactive & Diagnostic Control Systems.

Interactive Control System (ICS) is a formal MCS tool used by the managers to involve themselves into the decision making activities of the operating managers and to focus organization attention to strategic uncertainties. It emphasizes on the use and interpretation of information at multiples level in the organization, from Top to the bottom of the hierarchy. Whereas, Diagnostic Control Systems (DCS) are formal information systems that assist managers monitor the organizational outcomes and correct deviations from present standard of performance. Their main characteristics are their ability to measure the outputs of a process, the existence of predetermined standards against actual results and the ability to correct deviations from standards. Most businesses have come to rely on diagnostic control systems to help managers track the progress of individuals, departments, or production facilities toward strategically important goals.

3. THEORETICAL FRAMEWORK & HYPOTHESES

Based on the review of literature, an effort was made to build a relationship between the various dimensions of Organization Strategy and Structure and then further link them to the dimensions of the Management Control System (MCS) for four kinds of retailers. As already discussed in the review of literature, we have taken the Organization Strategy typologies of Miles and Snow (1978) namely, **'Defenders', 'Prospectors', & 'Analysers'.** And Organization Structure dimensions of Pugh. et. al (1968) namely, **'Formalization', 'Specialization', 'Standardization', 'Centralization', 'Flexibility' and 'Complexity of Work Flow'.** Similarly only two dimensions of Management Control System, **'Interactive Control Systems' & 'Diagnostic Cosntrol Systems'** proposed by Simons (1987 and 1990). Four retail formats namely 'Department Stores', 'Hypermarkets', 'Specialty Stores', & 'Convenience Stores' were taken for this particular research. These were classified on various typologies based on the

characteristics they exhibited. Sharma and Abidi (2006) classified organizations into various strategy types on the basic of organization structure dimensions. The same logic is extended to the above mentioned retail organizations as well.

Hypermarkets can be categorized as Analyzers. Hypermarkets have large product line in terms of the length and width of the products (Cataluna, Franco, & Ramos, 2005) (Johnson, 1994). Apart from variety, their focus on quality is also very high (Zentes, Morschett, & Schramm-Klein, 2007). They prefer to operate in a dynamic environment and change themselves quickly as the external environment changes. Also, they focus a lot on operational excellence and along with high service they provide the best bargain to the customers in terms of price offerings.

H1: Hypermarkets are Analyzers and have moderate levels of formalization, Centralization, Specialization and Standardization. They have moderate levels of Flexibility and Complexity of work flow and moderate Interactive and Diagnostic Control Systems as compared to Defenders and Prospectors

Department Stores have a medium product lines in terms of both length and width. They cater to a specific set of customers on the basis of high quality of services and loyalty programs. At the same time they are always on a look out for an extended market and new product categories that would attract new customers segment to their stores.

H2: Department Stores are Analyzers and have moderate levels of formalization, Centralization, Specialization and Standardization. They have moderate levels of Flexibility and Complexity of work flow and moderate Interactive and Diagnostic Control Systems as compared to Defenders and Prospectors

Specialty Stores are pure prospectors. They have a large variety of width in its product length (Skallerud, Korneliussen, & Olsen, 2009). They have a broad product-market domain and always look for new opportunities in terms of new markets as well as new products. They are in a continuous state of development. They have a high degree of fluidity or flexibility that helps it to adapt quickly to the changing environment.

H3: Specialty Stores are Prospector firms and have high degree of Complexity of work flow and Flexibility and low degree of Formalization, Centralization, Specialization, and Standardization and have high emphasis on Interactive Control Systems and Low emphasis on Diagnostic Control Systems as compared to Analyzers and Defenders

Convenience Stores are stores with a limited line of product that caters specifically to a limited set of customer segment

with a high emphasis on service quality. Their basis strategy is to service a niche segment that is defined by the geographical area that they serve. A chain of convenience stores have limited incentive to enter into new products and new markets.

H4: Convenience stores are Defenders and have high degree of Formalization, Centralization, Specialization, Standardization, and low degree of Complexity of work flow, flexibility and have Low emphasis on Interactive Control Systems and High emphasis on Diagnostic Control Systems as compared to Analyzers and Prospectors

4. METHOD & ANALYSIS

A total of 210 structured questionnaires containing questions related to organiztion strategy, structure & MCS were distributed in person to the store or functional managers based on convenience sampling method, out of which 90 filled questionnaires were collected (response rate of 42%). Out of a total of 90 organizations, There were 20 Department Stores; 18 Hypermarkets, 32 Specialty Stores and 20 Convenience Stores. To ensure the reliability of data and items used, reliability test and Principal Component Analysis (PCA) were conducted using SPSS 21. Inspection of the correlation matrix showed that all variables had at least one correlation coefficient greater than 0.3 for almost all items.

The hypothesis were tested in two parts. first the organizations were categorized into strategy typologies and later into the kind of management control systems on the basis of mean scores. The means for these organizations were used as a parameter to categorize them into various strategy Typologies **(Table I)**. The results of Descriptive statistics were used for categorization. The Department Store organizations showed an average mean scores in the range of 3.5 (+/- 0.5) for various dimensions of organization structure (except for Flexibility μ = 2.8), Since they combine the qualities of both Prospector and Defenders, on the basis of these average scores, they have been categorized as Analyzers. The Hypermarkets also had an average score of 3.5 (μ = 3.6 to 3.9) for Formalization, Centralization, Standardization & Specialization, However the scores for flexibility and complexity of work flow was low for Hypermarkets. Still they are categorized as Analyzers because of their average scores on formalization, centralization, specialization & Standardization.

Table I: Categorization on the basis of organization structure

	Hypermarket		Dept St.		Spec St		Conv St	
	μ	Var	μ	Var	μ	Var	μ	Var
FORM	3.7	.37	3.3	.5	2.1	.17	4.1	.08
CENT	3.9	.35	3.5	.5	2.3	.50	4.3	.07
STND	3.9	.45	3.5	.16	2.2	.74	4.4	.06
SPEC	3.6	.09	3.4	.10	2.3	.27	4.1	.15
FLEX	2.6	.43	2.8	.07	3.5	.19	1.9	.17
CWF	2.8	.24	3.1	.10	3.5	.18	1.8	.04

Specialty Stores could be clearly categorized into Prospectors because they had low scores (μ = 2.06 to 2.3) on Formalization, Centralization, Standardization & Specialization indicating that they had clear characteristics of prospectors. Convenience Stores had very high scores on Formalization, Centralization, Standardization & Specialization (μ = 4.1 to 4.4) and they had very low scores (μ = 1.8 & 1.9) on Flexibility and Complexity of workflow.

In the second part, these retail formats were classified on the mean scores of items obtained for the dimensions of Management Control Systems. **Table II** below lists the mean scores for ICS & DCS.

Table II: Categorization on the basis of Management Control Systems

	Hypermarket		Dept. St.		Spec St		Conv St	
	μ	Var	μ	Var	μ	Var	μ	Var
ICS	2.96	.09	2.66	.36	3.56	.24	1.92	.05
DCS	3.18	.07	3.40	.33	1.81	.08	3.98	.14

The Department Stores and Hypermarkets, that were classified as Analyzers, have moderate Interactive & Diagnostic Control Systems. The Specialty stores categorized as prospectors have High Interactive Control System & Low Diagnostic Control system, while the convenience stores categorized as Defenders have low interactive control system & High Diagnostic Control System.

Further the data was verified using One-Way ANOVA for strategy & Structure dimensions and Independent- Sample T-test for the dimensions of Management Control Systems (MCS)

The first part of the study had six constructs, for Organization Structure Dimensions. Here we have to show their impact on Retail format Organizations. Department Stores and Hypermarkets are categorized as Analyzers (A), Specialty Stores as Prospectors (P) and Convenience Stores as Defenders (D). Hence the null Hypothesis will be $H_0 = \mu_P = \mu_A = \mu_D$. We are interested to reject the null Hypothesis and accept the Alternate Hypothesis $H_1 = \mu_{P<} \mu_{A<} \mu_D$

In this study it was expected that the mean Values of constructs on organization structure associate with Hypothesis H1 to H4 would be highest for Convenience Stores, categorized as Defenders (D) for Formalization,Centralization,Standardization & Specialization as compared to Department Stores & Hypermarkets, categorized as Analyzers (A) & the MEAN values of Specialty Stores, categorized as Prospectors (P) would be lowest. From the results, it is found that mean values under all organization structure constructs for all retail formats are significantly different, except for Department Stores and Hypermarkets, as

they both Belong to the Analyzer category. Hence the mean values as mentioned in Tables I, the MEANS of Convenience Stores is highest and the MEANS for Specialty Stores the lowest. The MEANS for Department Stores and Hypermarkets lie in between them. Hence the Hypothesis gained significant support and were accepted.

Similarly for second part of the MCS dimensions, the hypothesis were related to these two dimensions for the four retail formats such that the hypotheses formed are that Mean for $\mu_D < \mu_A < \mu_P$ for Interactive Control Systems & the Mean for $\mu_D > \mu_A > \mu_P$ for Diagnostic Control System. The t-test for all the groups revealed that these were significantly different from each other on these two dimensions. These are significantly different at .05 levels thus giving 95% confidence intervals. The difference in means for DS & HM is not significant as they both belong to the Analyzer category. The Mean scores of Specialty Stores is the highest for Interactive Control System. It is moderate for Department Stores & Hypermarkets belonging to Analyzer category and the lowest for Convenience Stores. $MEAN_{CS}$ = 1.9; the $MEAN_{DS \& HM}$ = 2.9 & 2.6 respectively and the $MEAN_{SS}$ = 3.5. The Mean scores of Convenience Stores is the highest for Diagnostic Control System. It is moderate for Department Stores & Hypermarkets belonging to Analyzer category and the lowest for Specialty Stores. $MEAN_{CS}$ = 3.9; the $MEAN_{DS \& HM}$ = 3.1 & 3.4 respectively and the $MEAN_{SS}$ = 1.8. Thus proving and confirming the hypothesis

5. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Retail organizations have different agenda's to fulfill and they choose different business strategies that result in different business models being followed by them. Thus we have a large number of retailers following various retail formats.

In the above study, we have categorized these retail formats into strategy typologies on the basis of organization structure dimensions. This kind of a classification also give us a good scope for building up the theoretical framework for the overall retail sector. The study gives us a deep insight into the internal and external working of all these retail formats. First it helps us study the strategies that these retailers follow externally to capture market and to curb competition and last but not the least, into the internal working of these orgnizations, as to how the managers deal with the employees depending upon their organization strategy. This helps them in achieving their organizational objectives.

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