

STRATEGY AND ORGANIZATIONAL STRUCTURE

Yu. M. Suvaryan

Member of Academy, NAS RA

*Academician-Secretary of the Department
of Armenology and Social Sciences*

msuvaryan@sci.am

Abstract

The strategy is the philosophy of the organization, which expresses its competitive goals, priorities of resource distribution and actions, and the validity of the strategy is significantly determined by the methodology of its development, as well as the way, i.e. the level of intellect and leadership style of the chief executive of the organizational structure - the leader, as the first figure of making managerial decisions. The next administrative decision after the adoption of the strategy by the corresponding authorized bodies is the approval of the organizational structure of the administration, which must take into consideration certain requirements: correspond to the implementation of certain strategic goals of the organization, professional and industry division of labor, characteristics of rational bureaucracy, formulated by M. Weber, to be flexible and adaptable in the conditions of changes at high rates of scientific and technological processes, to ensure optimization of the administrative apparatus.

One of the features of public administration is that, in addition to the above mentioned requirements, it is necessary to attach significant importance to the first level of the historically formed division of public labor, as well as the core of the long-term strategy of the state - the mission of ensuring the necessary level of the population's well-being and the country's security.

Substantive and juridical-administrative relations between the strategy and the organizational structure are regulated by the provisions of the current legislation taking into consideration that the structure is the environment for the implementation of the adopted strategy.

Keywords: *strategic management, organizations, organizational structure, legislation, public management, professional and public division of labor, efficiency*

Introduction

The terms strategy and structure, which are closely related to each other, are widely used at the current stage of socio-economic life. The first of them, as a scientific category, expresses the development priorities of the organization, as well as the country, the region, in a certain period of time, usually with medium-term and long-term

horizons, evaluating the quantitative characteristics of all kinds of resources necessary for them.¹

The structure reflects the organizational environment that can ensure the realization of the strategic vision. According to the management theory, the organizational structure is derived from the selected strategy and should be derived from it.²

The basis of such logic is the structure of business thinking: to define profitable goals arising from the organization's mission, to create organizational structures to implement them, and also to motivate employees and control the processes of achieving the goals. Control is at the same time a means of providing feedback in the goals-results chain. Such logic of business philosophy is of key importance for the classification of management functions. And currently, as is accepted in management theory, there are mainly four of them: planning (programming), organization, interest, control.³

Of course, there are also other classifications.⁴

The task of this research is the development of principles and criteria for choosing an effective option of strategy-organizational structure interactions. By the way, this problem will be considered at the micro level (organizations), as well as at the macro level, making focus on the peculiarities of public administration. It may seem that strategy-structure interactions are regulated over time, especially when flexible and adaptable organizational structures are introduced, but often the management efficiency in organizations and at the macro level does not meet the required level, which is manifested by low or declining rates of economic growth, economic competitiveness, insufficient level of living standards of population, safety environment, etc. In many cases, the volume or quality of resources, low labor productivity, insufficient technological level are considered the reasons for such deficiencies, while both low indicators and these gaps can be the result of ineffective management. That is why the choice of the best version of the organizational structure of management, which is an essential prerequisite for high management efficiency, is a vital issue.

However, before looking at the interactions between strategy and structure, we should make an attempt to give characteristics of the modern requirements and standards presented to them.

1. Universal characteristics and features of strategy at the micro and macro levels

Strategy, as a widely used scientific and practical concept, was formed in the field of business and military sphere. Each organization is created for the

¹ Meskon, Albert, Khedouri 2000: 257; Mintsberg, Alstrand, Lampel 2000: 16; Daft 2006: 237; Suvaryan 2020: 21-22.

² Meskon, Albert, Khedouri 2000: 331; Daft 2006: 360.

³ Meskon, Albert, Khedouri 2000: 71-76.

⁴ Fayol 1965: 362-363; Kunts, O'Donnel 1981: 114-116; Daft 2006: 26-28.

implementation of a certain mission, accordingly, pursuing certain goals and striving to be competitive and receive income (profit). Business (also military sphere) is not a short-term operation, it involves making investments, releasing products (services), realizing them and having customers, being noticed in the market with quality products, competitive price and ensuring sustainable and long-term profitability. Therefore, there is a need for long-term planning of business activities, clarifying the goals of the strategy arising from the mission of the organization, assessing the demand for resources and market competition criteria (quality, price, demand structure, etc.). According to one of the general definitions of the essence of strategy in management theory, "strategy is a plan that describes the allocation of resources and actions necessary to interact with the external environment, obtain competitive advantages, and achieve the organization's goals".⁵ Thus, strategy is the organization's philosophy, which, taking into consideration the development experience, patterns, changes in internal and external environments, expresses its competitive goals, priorities for actions and allocation of resources. Depending on the subject of the strategy, it can be economic, social, scientific-technical, political, territorial, etc.⁶

The validity of the strategy is significantly determined by the methodology of its development. Choosing a strategy means making a managerial decision about the organization's mission and goals for the long term, at least for 3-5 years or more. And future-oriented decisions are made in conditions of uncertainty and risks, from among possible alternatives. Effective or the best option can be selected if the forecasting multivariate mathematical methods that take into consideration changes in the organization's internal and external environments, technological and market factors, famous Boston and McKinsey consulting groups, I. Ansoff's, M. Porter's matrix methods, SWOT analysis toolkit.⁷ Of course, it is more difficult to make a strategic decision at the level of public administration. However, methodologically, the differences in scale and subject (by years) do not significantly affect the logic of strategy selection, because the content of the strategy is structurally unchanged, the volume indicators, the composition of external and internal environments, composition and values of market and scientific-technological factors, trends of their change.

By the way, strategy adoption and strategic management are different from each other regardless of the level. The first is strategic planning with long-term and operational time horizons, and the second, in addition, also includes the creation of management organizational structures and interest system to implement the planned measures, allocation of resources, provision of feedback control (figure 1).⁸

⁵ Daft 2006: 237.

⁶ Suvaryan 2020: 21.

⁷ Management 2016: 105-119.

⁸ Suvaryan 2020: 22-23.

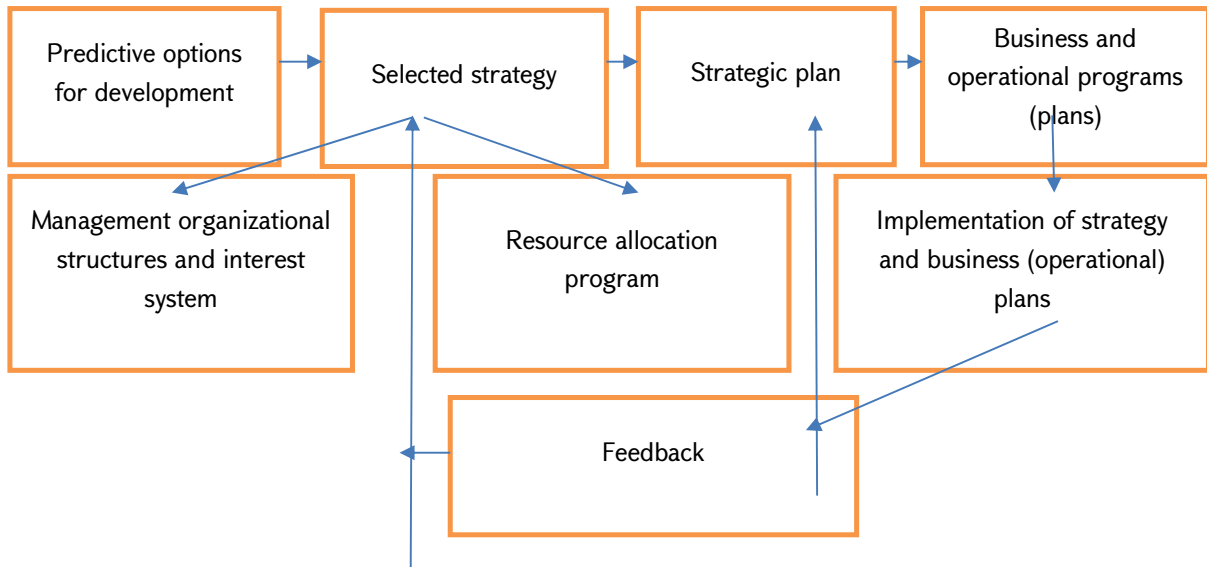


Figure 1. The strategic management process

Structure, principles, requirements and models

If the choice of strategy can be positively or negatively decisive for the organization, even for the country, then the organizational structure of management can play a role in the exact implementation or failure of the chosen strategy, and in general, in the validity and quantitative and qualitative effectiveness of all stages of the strategic management process.

The strategy, as the most important decision, is accepted by the management of the organization (country, region). Certainly, in this matter the figure of the leader, the head of the organizational structure, is important as the first figure of managerial decision-making.⁹ In the theory of management, the structure of the organization is characterized as “such logical relationships of management levels and functional areas, structured in such a way that enables the most efficient achievement of the organization’s goals”.¹⁰

After the selection of the strategy, as mentioned, the next managerial decision is the definition of the management organizational structure, the main requirements of which are:

- the goal of the organizational structure created at any level is the implementation of the adopted strategy, therefore it must be based on it, correspond to the unconditional solution of the set problems,

⁹ Suvaryan 2020: 75-79.

¹⁰ Meskon, Albert, Khedouri 2000: 90.

- the created organizational structure can be effective if it reflects the professional and sectoral division of work and separate structures and workplaces are assigned clear powers to perform their tasks,
- the structures created in the conditions of rapid scientific and technological changes should be flexible, adaptable, and if necessary, interdepartmental temporary project structures can be formed to solve problems of a synergistic nature,
- organizational structures should objectively meet the characteristics of a rational bureaucracy formulated by M. Weber,¹¹ among which are a clear division of labor, which leads to the involvement of highly qualified specialists according to positions, hierarchy of management levels, when lower levels are controlled by higher ones, general rules binding for all and the existence of standards that ensure the systematicity and uniformity of work, the spirit of formal impersonality in the performance of official duties, etc.,
- optimization of the management apparatus, which means the implementation of management functions under the conditions of minimal or non-inflated management costs, that is, with such a number of employees as is necessary for the fulfillment of the established powers.

The most common and used variety of the organizational structure of management is the linear-functional model, which has various manifestations, and in terms of organizations and public administration, has features, which we will observe below.

Interactions between strategy and structure in organizations

In practical life, the interactions between strategy and the organizational structure of management in organizations are regulated by the current legislation, based on the country's constitution, civil code and sectorial laws, as well as the organization's charter.

According to the Article 51 of the current "Civil Code" of the Republic of Armenia, all legal entity organizations are divided into commercial and non-commercial. Commercial organizations can be created in the form of economic associations and companies, non-commercial organizations are public associations, foundations, associations of legal entities and other structures provided for by law.¹²

Let us first consider the interactions of strategy and organizational structure in a functional way, using the example of some of the most widespread commercial organizations, limited liability companies and joint-stock companies. Then we will discuss the state non-commercial organizations.

The highest governing body of a limited liability company is the general meeting, whose purely managerial powers include the determination of the main directions of the company's activity, the adoption of the charter, the formation of executive bodies, the

¹¹ Meskon, Albert, Khedouri 2000: 332-333.

¹² Civil Code of the Republic of Armenia 2015: 26.

election of the audit committee, and the adoption of documents regulating internal activities.¹³

The highest management body of joint-stock companies is the general meeting, whose management powers include the approval of the charter, as well as the approval of the quantitative composition of the next management body, the board, and the election of its members, the formation of the company's executive body (individual or collegial), if this right is not reserved to the board by the charter, the company election of audit committee members.¹⁴ Among the exclusive competences of the board is the determination of the main directions of the company's activity, the formation of the company's executive body (if this right is reserved to the board by the charter), the approval of internal documents regulating the activities of the company's management bodies, the approval of the company's administrative structure and staff list.¹⁵

It is obvious from the written above that the organizations of the business sector independently decide on the organizational structure of strategy and management. In particular, in limited liability companies, the person responsible for adopting the strategy is the company meeting, and in joint stock companies, the company board. The problems of forming the organizational structure of management are regulated by the same logic.

In the founding document of the organizations, the charter reflects the object of their activity, goals, as well as the composition and competence of management bodies, the procedure for their decision-making, etc.¹⁶ Basically, the charter expresses the principled solutions proposed by the highest governing body, the meeting, and the following body, the council. It is logical that both the validity of the strategy and the effectiveness of the organizational structure depend on the scientific and practical level of those who develop and adopt them.

According to the RA law on state non-commercial organization, the functions of its management bodies are carried out by the founder, the state body authorized by him, the executive body, as well as the collegial management body, the board, upon the decision of the founder.¹⁷ According to that law, among the exclusive powers of the founder are the definition of the object and goals of the SNCO's activity, the approval of the charter, and the determination of the management organizational system. The founder may assign the authority to appoint the executive body to the collegial management body.¹⁸ By the way, the council is authorized to submit recommendations to the authorized state management body regarding the main directions of the

¹³ RA Law on Limited Liability Companies 2008: 21-22.

¹⁴ RA Law on Joint Stock Companies 2009: 66-67.

¹⁵ RA Law on Joint Stock Companies 2009: 70-71.

¹⁶ Civil Code of the Republic of Armenia 2015: 28, 52.

¹⁷ Law of the Republic of Armenia on State Non-Commercial Organizations, <https://www.arlis.am>, Article 12.

¹⁸ Law of the Republic of Armenia on State Non-Commercial Organizations, <https://www.arlis.am>, Article 13.

organization's activities within the scope and tasks of the organization defined by the founder.¹⁹ By the same article, the collegial management body is also authorized to carry out current control over the activities of the executive body of the organization, to approve the internal documents regulating the activities of the organization, the regulations of divisions, internal disciplinary rules, etc. According to Article 17, one of the powers of the executive body is the definition of the structure and structural units of the SNCO.²⁰ Thus, in terms of the SNCOs, the founder, the collegial and executive bodies of the organization's management participate in solving the problems of the organizational structure of strategy and management.

In business organizations, which are primarily private and profit-seeking, the appropriateness of the strategy and the effectiveness of the organizational structure can be evaluated by the indicators of the competitiveness and profitability of the organization in the market. In state non-commercial organizations, the evaluation of interactions and quality of strategy and structure can be done by the results obtained by the organization, as well as by expert observations.

According to our studies, during the activities of the organizations operating in the republic, the necessity of strategy development and implementation is not properly emphasized, and the linear-functional bureaucratic or classical model of the organizational structure is dominant, there are relatively few flexible project (matrix) options.

Such a situation is due to the structure of the republic's economy. Currently, food production branches dominate the service sector and manufacturing industry, and the share of scientific, technological oversaturation of production in the GDP is significantly low,²¹ while these are the changing fields in which flexible organizational structures are widely used.

As a typical model, let us present the organizational structure of the management of a joint-stock company (figure 2).

¹⁹ Law of the Republic of Armenia on State Non-Commercial Organizations, <https://www.arlis.am>, Article 19.

²⁰ Law of the Republic of Armenia on State Non-Commercial Organizations, <https://www.arlis.am>, Article 17.

²¹ Suvaryan 2019: 91-101.

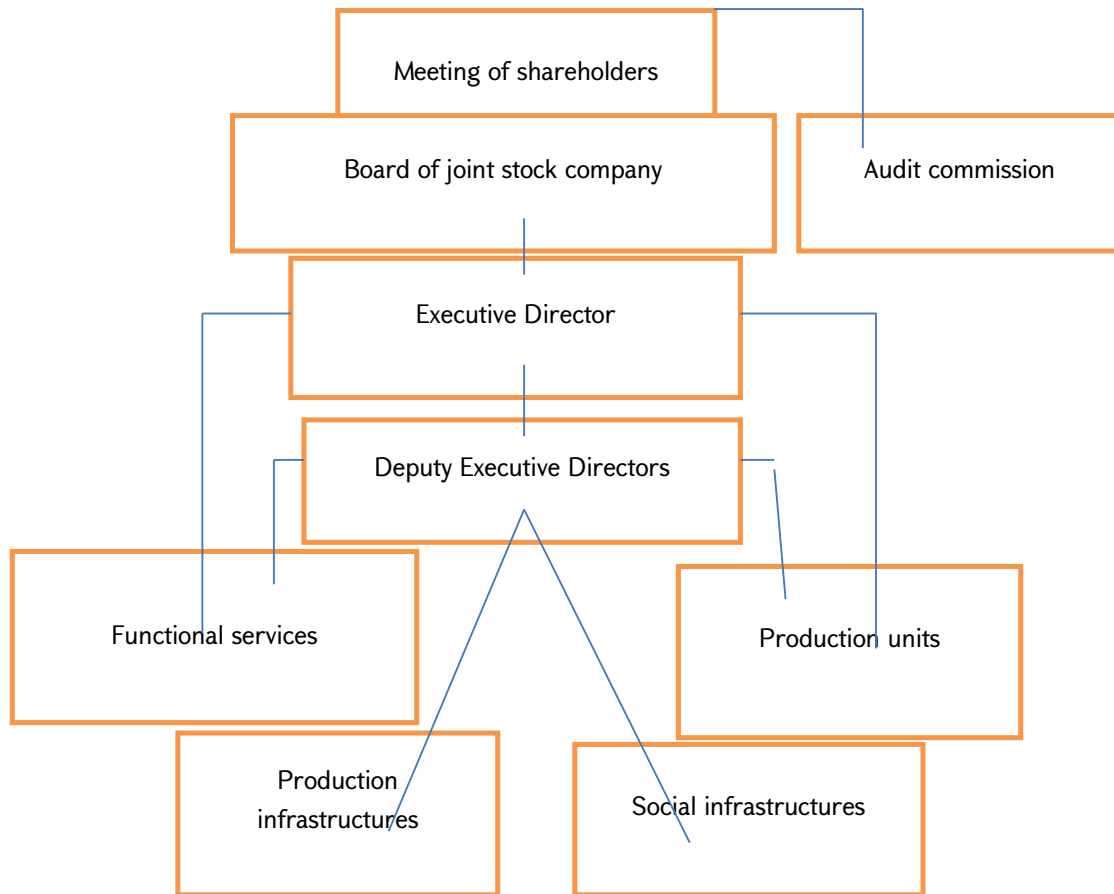


Figure 2. Organizational model structure of joint stock company management

The model of the organizational structure of public administration*

The public economy includes the entire financial system of the country, including the activities of state, local self-government and private organizations. It is managed as a result of policies developed and implemented by public bodies, which refer to scientific and technical, educational, economic, foreign trade, fiscal, customs regulations and measures. All this is reflected in the country's strategic development plan, which usually represents the government formed as a result of each electoral process to the parliament and acts according to the approved strategy. The latter is also the basis for the formation of the organizational structure of public economy management. However,

* For the author's first reference to this issue, see Suvaryan 2020: 122-131.

unlike organizations where a flexible structure can operate, there is a significant limitation in this matter. The point is that in the main laws of many countries, in the RA constitution as well, there is an article (147.2), which stipulates: “The list of ministries and the order of the government’s activities are defined by the law at the presentation of the government. The number of deputy prime ministers cannot exceed three, and the number of ministers - 18. The purpose of such regulation is to mitigate the impact of political changes in the public administration system, because it is, first of all, a group of highly qualified professionals providing state and community services, who enjoy certain rights, and besides, it is not desirable to subject the administration system to frequent radical shocks. Therefore, the complete system of public administration, including its financial and economic part, should be built based on the main mission of state administration, the essence of which is to ensure the necessary standard of living and security of the country’s population with the effective use of existing human and natural economic resources. The sustainable nature of the stated mission also gives relative stability to the management organization, i.e. the extent of powers and the structure of their delegation, which, however, does not mean that the problems to be solved cannot remain identical within the limits of the same powers. Moreover, they should be continuously changing over time, along with the rapid scientific and technical and market changes. For the fulfillment of the above mission, the state performs the following well-known main functions:

- creation of the legal framework necessary for social and economic life,
- ensuring the stability of the political situation and effective macroeconomic balance,
- implementation of investments in social security and infrastructure sectors,
- social protection of incapable and elderly members of society,
- environmental protection.

In order to implement the listed functions, bodies of legislative, executive and judicial power are created, whose powers are fixed by the country’s constitution and sectoral laws.

Structures dealing with security and foreign affairs issues are necessarily created within the executive branch, the composition of which is mostly stable and almost unchanged. Usually, the responsible bodies of the economy and the social sphere are interchangeable, although there are historically formed and relatively stable, even very necessary, areas of strategic importance. It is known that as a result of the first social division of labor, cattle breeding and farming were separated, and then from the latter, handicrafts. Thus, agriculture and the industry created historically as a result of the development and expansion of handicrafts are the most important branches of production of food and production tools, safety products. Construction is meant to create a living environment, production and social infrastructures for the population. Considering the extremely significant importance of the scientific and educational system in the country’s economy, cultural development and security environment, we believe that it is necessary to have separate education management and science and

technology management bodies²². The necessity and importance of telecommunications and transport in the era of generalization do not raise doubts. The same applies to healthcare, culture, environmental protection. In general, if the professional division of labor is one of the important elements of creating the organizational structure of organizations, then the first level of public division of labor (according to major branches and sectors) is essential in terms of public administration. The first level of branch and sectoral division of labor must be reflected in the organizational structure of public administration*, as certain historically formed branches or sectors have a clear and unique mission, and endless intra-sectoral divisions express the directions and priorities of the field's development and are included in sectoral strategies and organizational structures.

Separate objects of public administration are functional: economic, social, financial, as well as territorial spheres, which should also be included in the organizational structure of administration.

The specified branches and sectors are the minimum that should necessarily be the object of public management intervention. It should also be noted that modern ministries not only coordinate the production (service provision) processes of the sector, but also develop the general strategy of the sector, place and ensure the execution of state orders, if necessary, issue licenses to business structures, thus ensuring the implementation of policies related to the sector.

Accordingly, the public administration system can be characterized by the following structure (figure 3).

RA Constituion	RA President	
Legislative Power	Executive Power	Judicial Power
Deputy Prime Ministers	Prime Minister	
		Security and foreign affairs bodies
Functional ministries		
Finances		Branch (sectoral) ministries
Economic Development		Science and Technologies
Labor and Social Affairs		Education
State Revenue		Culture
RA Central Bank		Industry and Energy
RA National Statistical Service		Agriculture
Other independent constitutional bodies		Telecommunications and Transport
		Construction
		Environment and Ecology

²² For the justification, see Suvaryan 2020: 100-121.

* The theory of management explains the necessity of practical management by the vertical division following the horizontal division of work, so it is logical that the organizational structures of management should not be separated from them.

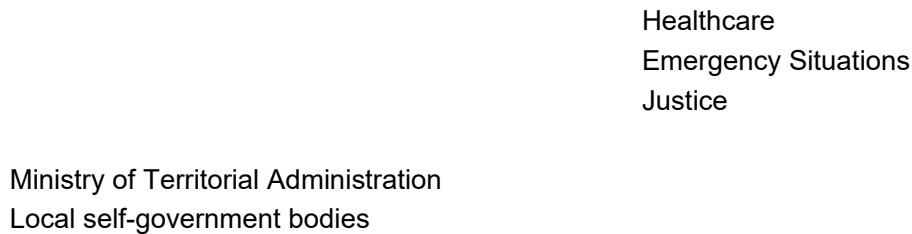


Figure 3: Public administration bodies

In the given figure, the bodies necessary for the realization of the constitution and mission of the state have been showed, whose activities are relatively stable and necessary.

During the years of independence of the RA, in accordance with the international experience, the bodies of legislative, executive and judicial power, territorial administration and local self-government were successfully established. Then, at all levels and circles, reforms took place and continue today to achieve higher efficiency. However, the composition and names of the ministries were changed more often, even when in 2005 the structure of the government is defined by law under the adopted constitution. It was believed that it is necessary to find the optimal (best) structure of the government, which corresponds to the mission and long-term strategy of the state administration, and to ensure the flexibility of the administration through the delegation of powers and the definition of tasks. In this sense, the version proposed above meets these requirements and can have a prospective application, because, as already mentioned, it is based on two important prerequisites: its mission, which is the core of the long-term strategy of the state, and the historically formed first level of the social division of labor. Purely as a result of historical-logical analysis, the above-mentioned conclusion was evaluated with the experience of the organizational structure of the governments of some post-Soviet unitary countries (Latvia, Lithuania, Estonia, Georgia, Kazakhstan), Eastern European (Poland, Czech Republic) and large federal states (Germany, Russia).²³

Functional ministries of the economic bloc (of finance, economy) have been established in all countries.

In order to manage the social sphere, the ministries of labor and social security, healthcare, culture, sports, education, and science are functioning in all the surveyed countries.

The management structures of different sectors of the economy, especially real production and services are diverse. All the observed countries have ministries of agriculture.

A national industry management body does not exist in all countries. Where there is no industry department, it is assumed that the policy for the development of the sector

²³ Suvaryan 2020: 128-130.

is developed and implemented in the Ministry of Economy. Meanwhile, the industry has a huge importance in the cultural and strategic development of the country, as well as an integrating and locomotive role for the entire economy. It is possible to effectively implement the branch management function in the presence of professional qualities, development prospects and deep knowledge of market features.

Joint transport and communication management bodies have been established in all the countries surveyed, incorporating modern telecommunications and digitization capabilities.

By the way, a remarkable trend is observed in some of the surveyed countries: the tendency to reduce the number of ministries. It is 11 in Georgia and Estonia, 9 in Latvia, 14 in the Czech Republic, Lithuania and Germany, 17 in Poland and Kazakhstan, and 21 in the Russian Federation. The problem of optimizing the composition of the government, in our opinion, has at least two limitations: the need to reduce the costs of maintaining the state apparatus and the importance of the full and effective implementation of state functions, with the latter taking precedence over the former. Therefore, the reduction of the number of ministries, the minimum standards of which have already been referred to, should not harm the efficiency of public administration, at the same time, to put it mildly, the exaggeration of the state apparatus is not useful either. Thus, supplementing the historical-logical analysis of the problem with the combination of the experience of different countries, it can be generalized that the proposed version of public management of the economy, in addition to meeting the strategic requirements, also meets the above mentioned limitations, is close to the optimum and has practical significance.

Conclusion

The strategy, as a perspective vision of the organization's activity, and the organizational structure, as an environment for ensuring its implementation, are interconnected in terms of content and legal-management aspects. From the substantive point of view, regardless of the level of management, the organizational structure is a derivative of the selected strategy, it must be derived from it, and correspond to the mandatory solution of the set goals and problems. From the legal-managerial point of view, the interactions between the strategy and the organizational structure are coordinated by the regulations of the current legislation, the constitution of the country, the civil code and the charter of the organization.

The purposefulness of the strategy and the effectiveness of the organizational structure can be evaluated by the indicators of the competitiveness and profitability of the organization in the market, by the obtained target results, as well as by expert observations. From the studies, it turns out that the development and implementation of a scientifically sound strategy is not properly emphasized in the organizations currently

operating in the republic, and the linear-functional model of the organizational structure is dominant, there are few flexible design (matrix) options.

At the macro level, the core of the development strategy is the main mission of the state administration: ensuring the necessary standard of living and security of the country's population with the effective use of existing human and natural economic resources. The organizational structure of public administration is objectively and necessarily based on two important premises: its mission, which is the core of the state's long-term strategy, and the historically formed first level of social division of labor.

BIBLIOGRAPHY

- Civil Code of the Republic of Armenia, Yerevan, Official Bulletin, 2015.
- Constitution of the Republic of Armenia (with amendments), Yerevan, Official Bulletin, 2019.
- Daft R.L. 2006. Management, St. Petersburg (In Russian).
- Fayol A. 1965. The doctrine of management, in Scientific organization of labor and management. Moscow (In Russian).
- Kunz G., O'Donnell S. 1981. Management: systemic and situational analysis of managerial functions, vol.1, Moscow (In Russian).
- Meskon M., Albert M., Hedouri F. 2000. Fundamentals of Management. Moscow (In Russian).
- Mintzberg G., Ahlstrand B., Lampel D. 2000. Schools of Strategies. St. Petersburg (In Russian).
- RA law on joint-stock companies, Yerevan, Official Bulletin, 2009.
- RA law on limited liability companies, Yerevan, Official Bulletin, 2008.
- Suvaryan Yu.M. 2016 (ed.). Management. Yerevan (In Arm.).
- Suvaryan Yu. M. 2019. Qualitative characteristics and priorities of economic development, Bulletin of social sciences, vol. 2, 2019.
- Suvaryan Yu. M. 2020. Modern problems of management theory. Yerevan (In Arm.).

Internet resources

Law of the Republic of Armenia on State Non-Commercial Organizations, <https://www.arlis.am>.

Translated from Armenian by Gevorg Harutyunyan

The article was delivered on 06.06.2023, reviewed on 10.06.2023, accepted for publication on 20.06.2023.