

# “State of strategy and structure in India: a study of top 100 firms”

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## SECTION 2. Management in firms and organizations

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### State of strategy and structure in India: a study of top 100 firms

#### Abstract

Indian economy is on a growth trajectory and many studies are projecting India to be among leading economies of future. The role and significance of India in the global economy is continuously increasing. Following the seminal work of Chandler, strategy and structure research has made a lot of progress and is one of major research issue in strategy. This paper studies the strategies and structures of the top 100 companies in India. Organizational structure and functional structure are most talked about structure-related terms in Indian firms. The paper finds that more companies are focusing on these structures as they have started facing competition. However this area needs more specification and focus.

**Keywords:** strategy, structure, performance, India, top companies.

**JEL Classification:** M10, L20.

#### Introduction

The world has re-discovered India and Indian economy in recent past (Pillania, 2008 SE-Editorial). Indian economy is on a growth trajectory and many studies are projecting India to be among leading economies of future. The role and significance of India in the global economy is continuously increasing.

The strategy-structure-performance (SSP) paradigm has developed a central role within strategy research (Wasserman, 2008). Chandler (1962) brought the focus on studying the relationship between structure and firm strategy, examining linkages between organizational structure and diversification strategy. He argued that changes in strategy required structural changes. Others based on the work of Chandler, namely, Rumelt (1974) extended Chandler argument to examine performance implications; Miles and Snow based on Chandler's insights to create a typology of strategies in which each strategic type used a different structure (Miles and Snow, 1978; Wasserman, 2008).

However, recent critiques of the strategy-structure-performance (SSP) paradigm (Galunic and Eisenhardt, 1994; Miller, 1996) have called for research that uses more appropriate measures of strategy and structure, inductive methods that enable richer exploration of the paradigm, and extension of the paradigm to the expert-focused organizations (Tece, 2003) that have grown in importance since the paradigm was first developed (Wasserman, 2008).

The interest of Indian firms in strategy is mainly a post-1991 phenomenon. Earlier the only strategy if any was to get a government license and start producing in a supply driven closed economy. Many family-owned businesses have gone for restructuring post-1991 using the consulting services from leading global consulting firms. Now with increasing domestic and international competition as well as growing aspirations, more and more Indian firms

are realizing various aspects of strategy for improving performance, including strategy and structure fit.

Though there is some interest in relationship between strategy and structure but there is not much published research work on strategy and structure in Indian context. This paper studies the strategy and structure in top 100 firms in India. This paper consists of four sections including the introductory part. Section 1 elaborates the research methodology. Section 2 presents the findings and discussions on the practice of strategy in Indian context. The last section concludes the paper.

#### 1. Research methodology

The study tries to find answers for three questions on strategy and structure issues in top 100 companies. The three questions are namely: Do the companies look into strategy and structure? How do they do it? What are the future plans? These three questions were decided by studying existing literature and discussion with experts. Key words were identified for some of the questions for strategy and structure based on the strategic literature and was used for the study.

The selection of the top companies for study is based on the Corporate Database Prowess of the Center for Monitoring Indian Economy (CMIE). CMIE is India's largest and most comprehensive database on firms operating in India. Prowess is a database of large and medium Indian firms containing detailed information on over 20,000 firms. The database comprises all companies traded on India's major stock exchanges and several others including the central public sector enterprises and covers most of the organized industrial activities, banking, financial and other services sectors in India. The companies enclosed in Prowess account for 75 per cent of all corporate taxes and make up 95 per cent of excise duty collected by the Government of India (CMIE, 2009).

The top 100 companies are selected based on total revenue over 1990-2008 time period. We have taken ten year time period which is reasonably long for busi-

ness performance. Only those companies are selected which were there each year among the top companies and absence for a year leads to rejection. Some new companies started recently could not be included into the list as they were not present over the ten year time period. The list of companies is given in Appendix. This work is based on secondary data collected from the annual report and websites of companies.

## 2. Findings and discussion

*Current state i.e. is the company doing it – yes or no?*

We found that the companies across all industries follow organizational structure and strategy that suit their organizational interests. The Indian Company Law makes it mandatory for companies to follow a formal structure. While many companies feel it a basic requirement to have a structure in place, few companies like Eastern Coalfields Ltd have to follow it because of the Indian law. The Indian companies were mostly family-owned businesses until a couple of decades back. Almost the entire management and executive positions were held by the family members. But with the increased competition faced by these companies from foreign firms, they had to adopt a structure and strategy that could infuse a high degree of efficiency in management and operations.

Strategy and structure	Organizational structure	Strategy-structure fit	Organizational forms	Functional structure	Divisional structure	Geographic structure	Product structure	Matrix structure	Network structure	SBU-based structure
S&S	OS	SS – Fit	OF	FS	DS	GS	PS	MS	NS	SBU

From Table 2 we figure out that 32 out of the 100 companies follow organizational structure. The other most common keyword was functional structure. The Indian context makes it more relevant for the firms to follow functional structure because in this activities are grouped together by common function from the bottom to the top of the organization. For example, all marketing people would work together within an organization under the same supervisor, as

*How is the company doing it?*

We now discuss how these firms deal with structure. The firms were classified broadly into 11 industries. 32 out of them belonged to the banking and financial services institutions (BFSI), which was the highest frequency (Table 1)

Table 1. Industry classification of top 100 companies

Sector	Total
Auto sector	7
Banking and financial services institutions (BFSI)	32
Capital goods	5
Chemical & fertilizer	9
Coal mining	3
Diversified	5
FMCG	3
Metal	14
Oil, power and gas	14
Technology	6
Transportation	2
Grand total	100

**2.1. Overall findings.** The literature review identified the following 11 major key words or themes. These are used in abbreviated form in Table 2.

would the people from manufacturing and engineering field. India has majorly been a closely knit group with the clan control; hence it might have been an obvious choice for most of the firms to group people doing similar activities together or to undertake functional structure. 32 belong to BFSI sector, in which, firms generally prefer to divide the work into various activities, e.g., insurance, retail banking, corporate banking, etc.

Table 2. Frequency of the various keywords across the industries

Sector	Count of S&S	Count of MS	Count of SBU	Count of NS	Count of DS	Count of FS	Count of GS	Count of PS	Count of OS	Count of OF	Count of SS fit
Auto	1	1				2	1		3		
BFSI	9		5	6	3	11	7	3	15		5
Capital goods			2		2	1	1	1	2		
Chemical & fertilizer	1		2		1	2	3	2	4		
Coal mining						1					
Diversified			3			3	1	2	1		
FMCG	1		2				1	2	1		
Metal	2		2		2	2		1	3		3
Oil, power and gas	2	1	4	1	2	5	1		3		2
Technology	2					2		1			1
Transportation	1		1								
Grand total	19	2	21	7	10	29	15	12	32		11

The reason for high count of organizational structure and functional structure can be attributed to BFSI industries (15 & 11 respectively) and their high proportion in the study sample. One drawback of the functional structure is a slow response to environmental changes that require coordination across departments. The vertical hierarchy becomes overloaded. Decisions pile up, and top managers do not respond fast enough. This could have been a reason for Indian firms being perceived as slow movers by the outside world.

**2.2. Industry-wise findings.** *2.2.1. Auto sector.* It is consisted of firms like Ashok Leyland Ltd., Hero Honda Motors Ltd., Honda Siel, Mahindra & Mahindra Ltd., Maruti Suzuki India Ltd., Tata Motors Ltd. & Apollo Tyres Ltd. It shows that 3 out of 7 firms are presently going for organizational structure, and 2 out of 7 firms are practicing functional structure (consistent with the across industry trends). Reasons could be the same given the fact that most of the automobile manufacturing firms have run this business since a long while and have gone for division of work on the basis of activities and have stuck with that since then.

*2.2.2. BFSI.* Due to their high proportion in the list, the facts which were true to them were generalized.

The most common phenomenon in this industry is that they have formed various subsidiaries each looking after a separate division, e.g., ICICI Prudential looking after insurance while ICICI Direct catering to the investors.

Other important thing to note was that most of them have Risk Management Committee or something similar to it at their strategic apex, which supervised the working of various divisions

Many of them have various branches across the nations. They are trying to reach out to the customers which shall be reflected in further study. The need to be customer focussed is reflected in the structure change. For example, SBU based model is replaced with effective and efficient "customer-focused vertical model" in case of IDBI Ltd.

*2.2.3. Capital goods.* Among the five companies selected under this industry: Bharat Electronics Ltd., Bharat Heavy Electronics Limited, Crompton Greaves Ltd., Larsen & Toubro Ltd. and Punj Lloyd, organizational structure, divisional structure and SBU-based structure were the most common.

Commonality of divisional structure over functional structure (most common across the studied companies) under this industry would be because it helps in coordination among functional departments.

Product lines for capital goods manufacturer are separate from each other and hence lack of coordination across product lines is not a concern to them. For example, L&T operates in diverse fields such as construction, hydraulic equipment, electrical and electronic power services, fertilizer projects, medical electronics, financial services and information technology. Thus this design suits them better.

*2.2.4. Chemical & fertilizer.* Among 9 companies studied under this sector, organizational structure is the most common, i.e., it is found in 4 of them.

*2.2.5. Coal mining.* With a low proportion of 3 per cent, this sector is consisted of firms practicing strategy and structure but with no particular focus on it. South Eastern Coalfields Ltd. has a functional structure.

*2.2.6. Diversified industries.* Going by the across industry trend, 3 out of 5 (60%) firms followed functional structure with similar proportion focussing on SBU-based structure too. The justification of the SBU-based structure followed is that these companies are into various diversified fields and treat each business as SBU. Firms like Adani Enterprises Ltd. (AEL) are practicing functional structure which focuses on performing one task and providing business to its different arm. AEL has bought coal mines in Indonesia, then they act as traders to distant manufacturing firms, not only they trade it but with the help of earned expertise in the field of logistics, they either do/outsource chartering (hiring of vessels for RM transportation across sea), use their infrastructure (Mundra Port) and look after the transportation of raw material like coal to the power plants across the nation. Collaboration between firms within industries is not very uncommon too. STC being close to government has bagged many projects from NTPC which have been sub contracted to AEL for end to end service.

*2.2.7. FMCG.* Among 3 companies in this sector SBU-based structure and product structure are the most common (2 out of 3). Due to the very low proportion the entire industry cannot be analyzed but still the existence of product structure will be quite common among FMCG sector. FMCG sector is largely sales driven sector. Importance of each product is understood by the amount of contribution to the top line and bottom line of the company. Hence the firms generally segregate each product line and ask them to compete among each other to promote competitive environment among the organization and increase productivity.

*2.2.8. Metal industry.* Here we have brought companies from the field of metal, metal alloys, steel, cement, etc., together.

With the soaring raw material prices for most firms under this industry the focus has shifted on operational efficiency. Targeting that firms like Hindalco opt for expansion in fast growing markets and take advantage of the steep slope of the learning curve among those markets. SPVs, Subsidiaries, JVs are quite common among this industry which shall again lead for their easy entry into newer markets. Steel giants like TATA steel have gone into upstream integration in raw materials focussing to achieve 100% self sufficiency. The industry had equal proportional representation for functional (2 firms out of 14 firms) and divisional structure practice (2 firms out of 14 firms).

*2.2.9. Oil, power and gas.* 6 out of 14 firms under this industry are in sync with the across industry trend of following functional structure. So is functional structure good for oil, power and gas industry? Argument against it can be supported by the fact that BPCL saw the change of the organization structure from a functional to a divisional enterprise with strategic business units. SBU-based structure has found popularity among 4 of the firms. Crude oil volatility is a well known phenomenon. Firms like HPCL have set up SBU with the focus to acquire a balanced portfolio of assets and minimize the risks. The impact of M&A on structure of firms can be understood from the fact that Mangalore Refinery & Petrochemicals Ltd. after getting acquired by ONGC has aligned itself to a similar structure as ONGC's.

*2.2.10. Technology.* With 6 firms under this industry, this was one of the most varied industries when it came to analyzing how they did follow strategy and structure within their organization.

**Managing uncertainties:** Software firm Satyam Computer Services Ltd has Enterprise Risk Management (ERM) in place which is a structured and disciplined approach that aligns strategy, process, people, technology and knowledge which helps in evaluating and managing certainties.

*2.2.11. Transportation.* With only two firms under this category; one dealing with air transportation while other using sea, makes it difficult to infer anything about the industry as a whole. Jet Airways (India) Ltd. is following a strategy & structure alignment by introduction of JetLite focussing on synergizing its network and a number of areas of operations. SCI, which has recently attained the Navratna status, on the other hand is focusing on evolving suitable business models to exploit emerging opportunities in Offshore Oil Sector, Port / Terminal Management, Logistics etc. The aim for diversification will be supported by functional structure of the firm.

With functions like bulk carriers, technical & off-shore service providers it aims to provide the end solutions to its customers.

**2.3. Indian firms vs foreign firms.** In today's competing world, strategy and structure have assumed relevance all over the world. Companies all over the world have focused on strategy-structure fit accordingly. This reality is also true in a lot of ways to Indian companies. Many of the Indian companies also service the market outside of India and hence they are flexible as well. Companies in India have also followed geographical structure because India is a big country and the different regions in the country are different in terms of the characteristics of the business there. Many of the companies we have studied have traditional structure like the hierarchical structure or the tier structure but this reality is fast changing. Thus, although there are differences but with the opening up of the Indian economy the way companies are following strategy and structure in India is rapidly converging to a global standard.

*What is the plan of the company for strategy & structure aspect in future?*

**2.4. Overall findings.** Indian Corporate did not have much focus on strategy and structure in the past but in recent times they are having a lot of focus on strategy and structure. They have developed strategies of focusing on it because they can feel the results of the same. For example, Reliance industries set up the precedent of setting up subsidiaries to raise money and then merge the entity once the project starts generating revenue. This has been a very good strategy of growing big without leveraging the books of the parent company. Similarly there are many more benefits of focusing on strategy. So though the focus has been low in India in the past but Indian companies have learnt a lot towards this direction and plan to focus more on this aspect in the future.

However we find that Tata group in India had more focused plan towards this. They have formally organized each business into a separate company with Tata Sons being the holding company. Hence we find that in the past few groups followed strategy and structure. But now more companies are focusing on it. However it is very necessary that PSU too focus on it. This is because they have been found lacking in this. This has also impacted their performance drastically (e.g., ECL).

**2.5. Industry-wise findings.** *2.5.1. Auto sector.* 6 of 7 companies follow strategy and structure and will continue doing it and the last one is going to do it. Ashok Leyland formed a lot of alliance which will come into action in coming years. Apollo Tyres Ltd. is heavily banking on its South African subsidiary.

2.5.2. *BFSI*. 28 out of 32 companies follow strategy and structure and will continue doing it and the rest three are going to do it. Andhra Bank does it to strengthen its network and customer base.

2.5.3. *Capital goods*. 4 of 5 companies follow strategy and structure and will continue doing it and the last one is going to do it.

2.5.4. *Fertilizer and chemical*. 7 out of 9 companies follow strategy and structure and will continue doing it, 1 is planned to do it more and one is not.

2.5.5. *Coal mining*. 2 out of 3 companies follow strategy and structure and will continue doing it and one of them does not do it at all and will not do.

2.5.6. *Diversified*. 3 out of 5 companies follow strategy and structure and will continue doing it and the rest two are going to do it.

2.5.7. *FMCG*. All the 3 companies follow strategy and structure and will continue doing it.

2.5.8. *Metal*. 13 of 14 companies follow strategy and structure and will continue doing it and the last one is going to do it.

2.5.9. *Oil power and gas*. 10 of 14 companies follow strategy and structure and will continue doing it and rest three companies are going to do it while one of them will change course of action. ONGC has subsidiary-based structure to be the focus also in the future.

2.5.10. *Technology*. All the 6 companies follow strategy and structure and will continue doing it. Infosys works towards making it a flat world organization.

2.5.11. *Transportation*. Both companies follow strategy and structure and will continue doing it.

**2.6. Indian firms vs foreign firms.** MNCs have focused on strategy and structure for long. However

Indian firms were late in catching up with their counterparts. But Indian firms learn from their foreign counterparts. They are also catching up fast. Foreign players have a much focused approach when it comes to strategy and structure. Indian firms need to focus more on strategy and structure. They need to integrate foreign operations with the Indian ones or the other way round. This will give them technological advantage, economy of scale, marketing advantage, access to wider markets, etc.

## Conclusion

Strategy-structure-performance has become one of central themes of strategy research. Though there is some interest in relationship between strategy and structure but there is not much published research work on strategy and structure in Indian context. This paper studies the strategy and structure in top 100 firms in India.

The findings suggest that organizational structure and functional structure are most talked about structure related terms in Indian firms. We find that more companies are focusing on it as they have started facing competition and also started reaping the fruits of this aspect. However this area needs more specification and focus. Further it is necessary that public sector undertakings (PSUs) too focus on it as they have been found lacking in this.

## Directions for future research

This study tried to answer five key questions related to strategy and structure in top 100 companies from India. Future studies can look at bigger sample size or undertake further in-depth analysis of some of the findings. Interesting insights might come from comparative studies across key industries.

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## Appendix

Table 1. Top 100 companies

Indian Oil Corpn. Ltd.	Axis Bank Ltd.
Reliance Industries Ltd.	Citibank NA.
Bharat Petroleum Corp. Ltd.	Satyam Computer Services Ltd.
Hindustan Petroleum Corp. Ltd.	Oriental Bank of Commerce
Oil & Natural Gas Corp. Ltd.	Uco Bank
State Bank of India	Reliance Infrastructure Ltd.
Steel Authority of India Ltd.	Allahabad Bank
NTPC Ltd.	Standard Chartered Bank
ICICI Bank Ltd.	Hongkong & Shanghai Banking Corpn. Ltd.
Mangalore Refinery & Petrochemicals Ltd.	Northern Coalfields Ltd.
Tata Motors Ltd.	Bongaigaon Refinery & Petrochemicals Ltd.
Chennai Petroleum Corp. Ltd.	Oil India Ltd.
MMTC Ltd.	Indian Bank
Larsen & Toubro Ltd.	Tata Power Co. Ltd.
Bharat Heavy Electricals Ltd.	National Bank For Agriculture & Rural Development
Tata Steel Ltd.	NMDC Ltd.
ITC Ltd.	National Aluminium Co. Ltd.
Hindalco Industries Ltd.	Mahanagar Telephone Nigam Ltd.
Maruti Suzuki India Ltd.	Rashtriya Chemicals & Fertilizers Ltd.
GAIL (India) Ltd.	Corporation Bank
Wipro Ltd.	Power Grid Corp. of India Ltd.
Infosys Technologies Ltd.	State Bank of Hyderabad
Canara Bank	Power Finance Corpn. Ltd.
Punjab National Bank	Andhra Bank
State Trading Corp. Of India Ltd.	Honda Sael Cars India Ltd.
Bank of India	State Bank of Patiala
Sterlite Industries (India) Ltd.	Tata Chemicals Ltd.
Bank of Baroda	Tata Sons Ltd.
Mahindra & Mahindra Ltd.	Bharat Aluminium Co. Ltd.
Hero Honda Motors Ltd.	HCL Technologies Ltd.
HDFC Bank Ltd.	Bhushan Steel Ltd.
HCL Infosystems Ltd.	Punj Lloyd Ltd.
Indian Farmers Fertiliser Co-op. Ltd.	Vijaya Bank
Grasim Industries Ltd.	Crompton Greaves Ltd.
Essar Steel Ltd.	Cipla Ltd.
Adani Enterprises Ltd.	Bharat Electronics Ltd.
Indian Potash Ltd.	Eastern Coalfields Ltd.
Rashtriya Ispat Nigam Ltd.	Apollo Tyres Ltd.
Ruchi Soya Inds. Ltd.	Aditya Birla Nuvo Ltd.
Union Bank of India	United Bank of India
Ispat Industries Ltd.	Nuclear Power Corp. of India Ltd.
IDBI Bank Ltd.	National Fertilizers Ltd.
Hindustan Zinc Ltd.	Asian Paints Ltd.
South Eastern Coalfields Ltd.	Shipping Corp. of India Ltd.
Jet Airways (India) Ltd.	Century Textiles & Inds. Ltd.
Ashok Leyland Ltd.	Bank of Maharashtra
Indian Overseas Bank	Godrej & Boyce Mfg. Co. Ltd.
Central Bank of India	Coromandel Fertilisers Ltd.
Housing Development Finance Corp. Ltd.	State Bank of Travancore
Syndicate Bank	Gujarat State Fertilizers & Chemicals Ltd.