

## Chapter 6

# Network Organization as a Result of the Strategy of Forming Global Organizations: Organizational Structure Transformations

### ABSTRACT

*In this chapter, the authors assume that if an organization implements a development strategy supported by the information communication technology (ICT) progress, its organizational structures are transformed. The implementation of such a strategy leads to the transformation of local organizations into global ones. Organizational structures, forming part of the infrastructure for the implemented strategy, change. As a consequence, the transition from hierarchical structures to network structures takes place. The transformation results in the rise of global organizations.*

### INTRODUCTION

Based on research in American corporations, D. Chandler (1962) depicted interdependences between the organizational strategy and structure. The analyses of development of firms such as Du Pont, General Motors, Standard Oil Company, and others indicated that the organizational structure should be aligned with the implemented strategy (structure follows strategy). D.

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Chandler's research on the evolution of organizational strategies and structures of American corporations revealed close relationships between organizational strategies and structures (Kisielnicki & Nowicki, 1974). At the initial stage, organizations focus their activities on one product. Over the course of time and their development, their structures evolve. The changes relate to new tasks resulting from their growth. A change of strategy very often involves diversification and emergence of new departmental forms or mergers with other organizations. At the beginning of life of organizations, management decisions were centralized in the hands of one manager or a small management board. The reason was that the degree of complexity and formalization of the structure was low. The development of organizations and their increased role changed their strategies. This, in turn, required more complex management structures and decentralized hierarchies.

## **NETWORK STRUCTURE AS A METHOD FOR BUILDING A GLOBAL ORGANIZATION**

The research initiated by D. Chandler was continued by B.R. Scott (1973), R.P. Rumelt (1974), P. Drucker (1977), R.E. Miles and C.C. Snow (1978), H. Mintzberg (1997), J.L. Boschken (1990) and many others. In this respect, B.R. Scott's (1973) observations were interesting. He presented the following path of organizational structure evolution. The initial model was simple with slight formalization – the so-called *one man show*. The next stage was a bureaucratic model that was transformed all the way into a decentralized model. The analysis of related literature and own research on changes in organizational structures may help identify the stages of that evolution. Network organizations are an effect of such evolution of organizational structures.

### **Stage I: Local Organization With Traditional Management Infrastructure**

This stage covers the period before the widespread application of IT (Information Technology), notably the Internet. Organizations were originally formed as a result of the vision of the owner, entrepreneur. Organizational structures were not complex and the existing communication systems allowed direct supervision of each employee. In such circumstances, the structure is simple and not extensive. In this period, the organization develops

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