Stockholm School of Economics
Department of Marketing and Strategy
Course 2210, M.Sc. Thesis in Strategy and International Business

Strategy and structure: expansion strategy patterns and organizational (re)structuring in large industrial diversified firms

Abstract

The goal of this thesis is to investigate if Alfred D. Chandler's findings regarding expansion strategy patterns and organizational structure, in the book *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* also are applicable to large Swedish firms. In particular, the thesis investigates if Swedish firms have followed the same expansion strategy pattern and if the time between Chandler's investigation 1962 and 2011 has changed the way firms structure their organizations given a certain strategy. This is investigated through looking at the historical expansion patterns of four Swedish, large, industrial and diversified firms and how their present organizational structures looks like. There are two main findings. First, the investigated firms expansion strategies doesn't follow Chandler's suggested pattern in terms of which strategies that are used or the order in which they are implemented. Second, all the investigated firms were structured by the multidivisional organization suggested by Chandler, but they differed in their definition of divisions.

Keywords: Expansion strategies, vertical integration, diversification, organizational structure, multidivisional

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1 Introduction

1.1 Background

When Chandler started to write his book "*Strategy and Structure: Chapters in the History of the American Industrial Enterprise"* (which from here on will be referred to as "Chandler") in 1962, he didn't "intend to write a book for business managers".[1] He intended to perform research regarding "the way different enterprises that carried out the same activity … would have as much value as if a single firm carried out all these activities".[2] Although, he ended up investigating the relation between expansion strategies and organizational structures in almost one hundred of America's largest industrial enterprises.[3] As Chandler was conducting his research, a few things became clear to him:

First, Chandler meant that knowledge of the firm's organizational history is essential in order to carry out an analysis of the firm's administrative structures.[4] Second, the expansion and growth strategy formulated by the individual firm, resulted in organizational restructuring.[5] Third, the changes in and of the American macro economy – especially changes those who affected the firms markets, customers and products – influenced the given strategy formulation regarding expansion and growth.[6] Finally, the restructuring were a result of the condition of the administrative skills in the U.S. at the time they occurred.[7] Looking closer at the growth strategy pattern and its relation to organizational structure, Chandler concluded the following:

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[1] Chandler, A.D. (1962, 1990). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. The MIT Press. P. introduction.
[2] Ibid. p. 1.
[3] Ibid. p. 3.
[4] Ibid.
[5] Ibid.
[6] Ibid.
[7] Ibid.

a) *"Growth through expansion of volume led to the creation of an administrative office to handle one function in one local area,*

b) *Growth through geographical expansion brought the need for a departmental structure and departmental headquarters to administer several local field units,*

c) *Growth through vertical integration called for the building of a multidepartment structure and a central office, and finally,*

d) *Growth through horizontal diversification brought the formation of the multidivisional structure with a general office to administer the different divisions".*[8]

1.2 Theoretical aspects

The main theoretical aspect will be Chandler's findings when it comes to both expansion strategy patterns and the following organizational structures. This means that I will take the starting point in what is stated above in *1.1 Background,* where it is described first how Chandler's findings confirm a certain expansion and growth pattern:



PICTURE 1: CHANDLER'S FINDINGS REGARDING EXPANSION STRATEGY PATTERNS

And continue with how the organizational structure follows this growth strategy pattern:



PICTURE 2: CHANDLER'S FINDINGS REGARDING ORGANIZATIONAL RESTRUCTURING PATTERNS

[8] Ibid. p. 15.

In order to identify and explain both different types of expansion- and growth strategies and the different organizational structures more in depth, with its pros and cons, I will also use other theory on the subjects. This is important since Chandler never explains in detail what the different strategies of expansion and growth mean. In order to clear this out, I will consult additional literature specialized in these areas.

1.3 Problem formulation

Since Chandler conducted his investigation only on American firms in 1962, it would be interesting to both investigate if the same findings regarding expansion strategy patterns are applicable to Swedish firms, in addition to investigate whether the multidivisional structure still is dominating 50 years later. These questions results in two problem formulations:

a) *First, have Swedish large, industrial firms followed the same expansion strategy pattern that Chandler identified in American firms?*
b) *Second, given that the firm to some degree is diversified, does Chandler's theory about the multidivisional structure hold for the investigated firms or does it relate to the historical time when he conducted his investigation?*

In other words, the main contribution of this thesis will be to determine whether Chandler´s findings in terms of expansion and growth strategy patterns are applicable to Swedish firms and the if following organizational structure still apply, and if this is something that can be generalized among the investigated firms. In order to more in particular investigate the problem formulation, I will formulate several hypotheses that can be found in the end of the theory chapter.

1.4 Purpose

The purpose of this thesis is to through Chandler's existing findings try to determine whether Chandler´s findings regarding expansion strategies are applicable to Swedish firms and if the multidivisional structure still – 50 years later – is implemented given a certain strategy by firms listed on OMXS30.

1.5 Delimitation

There are three main delimitations I will make: the first delimitation is the most obvious, the number and choice of firms to study. I will study four firms belonging to the stock exchange OMXS30 and the method for choosing these four firms is presented in *4.1 Method for choosing firms*. The second delimitation regards what is stated in *1.1 Background*, where Chandler describes that the growth patterns reflected changes in the overall American economy and thereby the demand for these firms products, that is, on a macro level. I will only very briefly touch the subject on how market- and demand structures affect the changes in firm structure. Further, Chandler also stated that the restructuring of the organization in the firms in question was a result of the administrative art in the U.S. at that time. I will not investigate or elaborate how the thesis findings are connected to this phenomenon.

The third delimitation is that I will focus on the last stage regarding organizational structure, that is, given that the firms are diversified, are they structured through a multidivisional organization?

1.6 Disposition

The thesis is disposed after the following chapters and content:

Chapter 1: Introduction	In the first chapter, the thesis describes background, the subject, problem formulation and delimitation.
Chapter 2: Method	In the second chapter, I will describe how the study is conducted and why I have chosen these methods.
Chapter 3: Theory	In the third chapter, the theory I will use as a starting point is described more in detail, both regarding expansion strategy in terms of corporate strategy and business strategy as well as theory on organizational structure.
Chapter 4: The studied firms strategy and structure	The fourth chapter will describe the empiric perspective in terms of looking at the investigated history regarding strategy and organizational structure.
Chapter 5: Analysis	In the fifth chapter, I will conduct the analysis through the attempt to extract the most relevant information from the empirics and put this information together in the context of the investigated subject of strategy and structure.
Chapter 6: Conclusions	In the sixth chapter, I will point out the conclusions drawn from the analysis and if it is

possible draw some general conclusions. I will also make some suggestions for further research.

2 Method

2.1 Deductive study

I have chosen to make a deductive study, since I will use Chandler's observations as a starting point, that is, the theory is already given. In other words, the thesis will start with Chandler's theory following an already proven pattern. Then, I will try to find out whether the same pattern is applicable to the firms I am investigating in present time.

2.2 Qualitative case study

A qualitative case study "gives tools to study a complex phenomenon within its context".[9] The qualitative case study method is appropriate if a) the aim of the study is to deal with questions such as "how" and "why", b) manipulation of the behavior of those involved in the study is impossible, c) the cover of contextual conditions is preferable, or d) the exact boundaries between the context and phenomenon are not clear.[10] Looking at this specific thesis, it searches to answer, *how* the investigated firms grow, and *how* they structure their organizations. Further, there is no possibility to manipulate the behavior of the firms studied. In addition, one of the thesis´ main objectives is to cover the context of the firms in terms of time since Chandler's study could be considered obsolete. Although, the last criteria is not fulfilled here since the boundaries are clear between the phenomenon and the context.

[9] Baxter, P. & Jack, S. (2008). *Qualitative Case Study Methodology: Study Design and Implementation for Novice Researches.* The Qualitative Report. Vol. 13
[10] Ibid.

2.3 Sources

When I started to write the thesis, I didn't realize how hard it would get to extract information regarding the firms' historical organizational structures. After speaking with people at the different firms at different departments such as investor relations, information etc., I concluded that it would be hard to get any information through interviews, simply because the people working at the firms today doesn't know anything about the historical organizational structures, or how to get information about it.

Literature

The main literature that will be used here is Chandler. But in order to get a more complete picture, I will also consult other literature on the subjects of both strategy and organizational structure.

Internet

The internet and the firms' web pages were reasonable sources when it came to finding information about their historical expansion patterns and their present organizational structure. Rather late into the process on writing this thesis, several firms provided me with books, but the contents were more or less the same that I already had extracted from their web pages.

2.4 Criticism

Criticism of method

The main risk I see with making a qualitative case study instead of a quantitative study is the lack of general reliability. This means that when only a few firms are investigated more in dept, it is harder to draw general conclusions from the investigation due to the possibility of circumstances that the individual object (firm) could be a victim of. In

order to try to avoid this, I will try to be as careful as possible in both the investigation and the conclusion, by this I will try to interpret and understand the phenomenon.

Criticism of sources

One of the main secondary sources I will use is information issued by the firms investigated here. One risk in this particular case is that the issued information could be biased towards product development instead of e.g. geographical expansion or vertical integration expansion. This wouldn't be very hard to understand since the firms are proud over their developed products and not e.g. which suppliers they have acquired. Although, I will – if necessary – consult other sources if I am noticing a bias in the disclosed information towards expansion through product development in the case.

Criticism of theory

Regarding the theory, it is just what it sounds like – theory. This means in practice that it probably will be hard to fit any firm exactly into the theory which I am testing the empirics. On the other hand, Chandler's theory is based on real findings, meaning that it shouldn't be too far from reality. Although, as stated earlier, Chandler doesn't describe the theory in detail which was the main reason for adding other theory in the fields which in turn leads back to the assumed gap between theory and reality. Furthermore, it is well known that a theory never is applicable without consideration of situational circumstances.

3 Theory

3.1 Strategy and structure: chapters in the history of the American industrial enterprise

Chandler wrote his book "strategy and structure: the history of the American industrial enterprise" in 1964, and ended up investigating the relation between strategy and organizational structure as noted in the beginning of my study. The book in itself treats four of these firms; DuPont, Sears, General Motors and Standard Oil of New Jersey. As also stated in the beginning, he found that the firms followed a certain pattern regarding their expansion strategies, but also that they followed a certain pattern when it came to organizational (re)structuring depending on which strategy state the firm implemented at that time. In order to describe what each state in both the strategy and the organizational structure pattern means I have – as earlier stated – decided to also consult other theory on the subject.

3.2 Strategy theory

Chandler defined strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals".[11] Although, other researchers make a distinction between three different levels of strategy in an organization: corporate strategy, competitive (or business (unit)) strategy and functional (or operational) strategy:

a) *Corporate strategy* occurs at the corporate level and is concerned with questions such as, what businesses should be included in the corporate portfolio, how

[11] Chandler, A.D. (1962, 1990). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. The MIT Press. p. 13.

should these relate to one another, and how should these businesses relate to the corporate parent,

b) *Competitive (or business (unit)) strategy* occurs at the divisional or business unit level and concerns how the division or business unit should compete in its industry, and,

c) *Functional (or operational) strategy* occurs at the functional/departmental level and is concerned with how these functional activities should be carried out.[12]

This thesis will focus both on corporate strategy and competitive strategy. This is due to the fact that Chandler's strategy formulation and organizational restructuring occurs at both levels. For example, the corporate headquarters may add a new division in a new industry, but at the same time a business unit may also add a new business unit in order to compete more effectively. The following describes strategy and the main objectives and consequences of the choice regarding the relation among business units.

The strategy of vertical integration

In opposite to diversification which deals with the horizontal scope of the firms operations, vertical integration deals with upright scope of the firms operations. A firm's level of vertical integration could be defined as "the number of steps in the value chain that a firm accomplishes within its boundaries".[13] When a firm takes on more steps within its boundaries downstream, it is referred to as forward vertical integration, since the firm now operates closer the end of the value chain – the final buyer.[14] At the same time, when a firm makes its operating scope larger in terms of upstream steps, it is referred to as backward vertical integration since the firm now takes on more steps in

[12] Lecture in *Strategy Mainstream* at SSE in course *3302 Management Control* 2009-08-28 with Peter W Jönsson
[13] Barney J.B. (2006, 2010). *Strategic Management and Competitive Advantage.* Person Education. p. 164.
[14] Ibid. p. 164.

the value chain closer to the start of the value chain – the raw materials.[15] Ronald Coase investigated the added value of vertical integration and concluded that the costs associated with buying or selling within the value chain from the market in some cases must be higher than taking them on within the firm's own boundaries and operations, hence the generic incentive for vertical integration.[16] There are three types of incentives for a firm to increase its revenues and/or decreasing its cost through vertical integration:[17]

a) *Vertical integration and the threat of opportunism.* Opportunism means that one of the two parties involved in an economic exchange/transaction is exploited in a way that isn't fair (or originally agreed on),[18] which could e.g. mean that the firm doesn't get what the exchange parties initially agreed on regarding quality, delivery times etc. When the potential costs of opportunism are higher than the costs associated with vertical integration, the firm should integrate vertically and take on the step within its boundaries. When that investment is more transaction specific (e.g. hard to sell to a third part), the threat of opportunism increases.

b) *Vertical integration and firm capabilities.* The second question is whether the firms resources and in particular capabilities are able to give a sustainable competitive advantage.[19] First, the firm should integrate vertically "into those stages in the value chain where they have valuable, rare, costly-to-imitate resources and capabilities".[20] Second, the theory also suggests that a firm should not integrate vertically into value

[15] Ibid.
[16] Ibid. p. 167.
[17] Ibid.
[18] Ibid.
[19] Ibid. p. 169.
[20] Ibid.

chain stages in which it don't have the necessary resources to gain a competitive advantage.[21]

c) *Vertical integration and flexibility.* Flexibility in this context takes into account how expensive it would be for a firm to reformulate the entire firms strategy, mission etc.[22] Vertical integration is said to result in less flexibility the more vertical integrated the firms appears to be. The explanation is that the engagement of the firm into more value chain steps also has an impact on e.g. organizational structure and other management control systems.[23]

As an example, distribution firms reap economies of scope – or operational synergies – since they can distribute a much larger volume from several different manufacturers under its own scope at a lower unit cost, relative to the individual manufacturer.[24] But the manufacturer will integrate forward when his volume exceeds the distributor´s volume, since the distributors unit costs now are higher which will affect the cost structure of the manufacturer in terms of lower operating margins.

The strategy of a single industry

In opposite to vertical integration and the vertical scope of the firm, diversification deals with the horizontal scope of the firm. A firm follows a single industry strategy "when it is totally committed to one single industry".[25] In order to determine the corporate strategy of a firm, one can use two criteria. The first criterion is the extent of diversification[26], meaning the number of industries the firm competes in can be applied. The second one

[21] Ibid.
[22] Ibid. p. 170.
[23] Ibid.
[24] Chandler A. D. *The Evolution of Modern Global Competition.* Chapter in Porter M.E. (1986) *Competition in Global Industries*. Harvard Business School Press
[25] Anthony R.N., Govindarajan V. (2007). *Management Control Systems.* McGraw – Hill. P. 59.
[26] Ibid, p. 59.

is about the degree of relatedness[27] meaning that the number of linkages between the different business units should be examined.[28] Core competence is the central growth path for the single industry firm.[29] An example of a firm following this strategy is McDonalds.[30]

The strategy of related diversification

Firms that follows a strategy of related diversification operates in more than one industry (or industry segment), but on the other hand, these industries tends to be related and hence, the firm can reap economies of scope.[31] These economies of scope come primarily from four different linkages across divisions: operational economies of scope, financial economies of scope, anticompetitive economies of scope and employee and stakeholder incentives for diversification:[32]

a) *Operational economies of scope* which can be broken down to:

- *The ability to share common activities,* meaning that the corporation uses common tangible activities when coordinating divisions, such as in manufacturing operations, technology development operations, marketing operations,[33] etc.
- *The ability to share common core competences,* again, the coordination of divisions in a way that they could leverage each other through using common intangible resources such as managerial skills, technical know-how, wisdom, and other experience[34] etc.

b) *Financial economies of scope* which typically consist of:

[27] Ibid. p. 59.
[28] Ibid. p. 59.
[29] Ibid. p. 59.
[30] Ibid. p. 59.
[31] Ibid. p. 60.
[32] Barney J.B. (2006, 2010). *Strategic Management and Competitive Advantage.* Person Education. p. 194.
[33] Ibid. p.195.
[34] Ibid. p.195.

- *Internal capital allocation.* When a firm has better knowledge and information about its divisions relative to the external capital market, research suggests that the allocation of capital between and to divisions becomes more efficient.[35]
- *Risk reduction,* meaning that the cash flow risk in a diversified firm is lower relative to an undiversified firm. Cash flow risk means simply the risk of decreasing cash flows depending on e.g. the world economy. This type of risk is typically lower when the cash flows in e.g. two divisions are negatively correlated. [36] Consider for example that division A in general has a positive cash flow in a strong economy and that division B has a positive cash flow in a weak economy, in this case, the overall cash flow risk in the group has decreased due to the diversification of divisions.
- *Tax advantages.* First, this mean that a diversified firm can transfer results within the group in order to even out results (e.g. net negative results in division A against positive results in division B). Second, as a result of the lower cash flow risk in a diversified firm, the risk of bankruptcy is also lower, which in turn increases a firm debt capacity (some interest rates on debt are tax deductible).[37]

c) *Anticompetitive economies of scope* which typically consist of:

- *Multipoint competition.* Meaning that several diversified firms compete simultaneously in several industries which can enhance tacit collusion in terms of another phenomenon – mutual forbearance.[38] Tacit collusion means that at least two firms implicit cooperate with the goal of driving down competition under the level of a perfect market, and mutual forbearance means that a firm not competes

[35] Ibid. p. 203.
[36] Ibid. p. 205-206.
[37] Ibid. p. 206.
[38] Ibid. p. 207.

aggressively in one market in return for being "given" another market from a competitor.[39]

- *Exploiting market power,* which means that a diversified firm with a strong position in one market (with potentially higher returns than average) uses these returns to finance actions on other markets e.g. predatory pricing in another industry in order to compete more efficient and in the long run also dominate the second industry.[40]

d) Employee and stakeholder incentives for diversification, which typically consist of:

- *Maximizing management compensation,* which means that when the firm diversifies and thereby grows, the compensation to top management also increases as a rule, not as a rule of that the economic performance increases, but of the fact that the firm, in particular sales, grows.[41]

An example of a firm following the strategy of related diversification strategy is Procter and Gamble.[42]

The strategy of unrelated diversification

Unrelated diversified firms – also referred to as conglomerates – operate in a number of different industries and the relation between divisions or business units are purely financial.[43] Here, the corporate headquarters act almost like holding firms, since there is no common planning, coordination or appraisal between the separate divisions.

[39] Ibid. p. 207.
[40] Ibid. p. 208.
[41] Ibid. p. 209.
[42] Anthony R.N., Govindarajan V. (2007). *Management Control Systems.* McGraw – Hill. P. 59.
[43] Ibid.

Unrelated diversified firms grow primarily from mergers and acquisitions.[44] An example of a firm following this strategy is General Electric.[45]

3.3 Organizational structure theory

Chandler's definition of structure is "*the design of organization through which the enterprise is administered*".[46] According to Chandler, this structure includes two aspects, first, "the lines of authority and communication between the different administrative offices and officers, and second, the information and data flow through these lines of communication and authority".[47] In the following sections, I will treat the different parts in the organization that finally builds the diversified multidivisional structure.

The field unit and the simple structure

The first and most basic structure occurs when the firm still is rather small and only performs one function in one geographic area. This is what Chandler calls the field unit that runs a sales office or a single plant, etc.[48] and could be said to have a simple structure. The simple structure is the first structure to pursue when starting a small business in one place, with one function. The structure is not much more than one large unit consisting of one or a few top managers and a group of operators, who do the basic work, but also, little of its behavior is standardized or formalized, and minimal use is made of planning, training, or the liaison devices.[49]

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[44] Ibid. p. 60.
[45] Anthony R.N., Govindarajan V. (2007). *Management Control Systems.* McGraw – Hill. P. 59.
[46] Chandler, A.D. (1962, 1990). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. The MIT Press. p. 14.
[47] Ibid.
[48] Ibid.
[49] Mintzberg H. (1981). *Organization Design: Fashion or Fit?* Harvard Business Review. p. 105.



PICTURE 3: THE SIMPLE STRUCTURE

The administrative office

Looking at the first growth strategy to pursue – expansion of volume – Chandler concluded that when the firm grows through volume expansion, the business will need to create an administrative office to handle the larger volume, in more specific, the new administrative office handles coordination, appraisal and planning since this no longer could be done by the same people due to the increased volume.[50] Now the firm gets a more vertical structure due to the administrative demands and hence its first reporting structure meaning that the field unit reports directly to the administrative office.



PICTURE 4: THE SIMPLE STRUCTURE WITH THE ADMINISTRATIVE OFFICE

The departmental structure

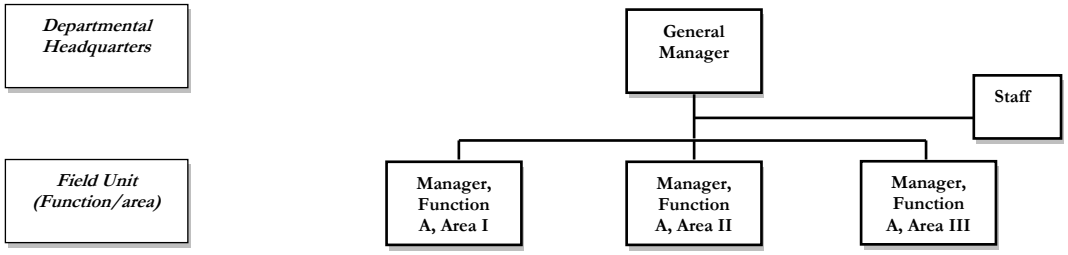
As stated earlier, the second growth strategy in the discussed pattern of expansion is geographic dispersion, meaning that the firm sets up one or more additional field units in new geographical areas.[51] When the firm then consists of several field units, there is also an increased need for an administration that coordinates, appraises and plans for them. Now, the firm takes the shape of a single department which also requires a

[50] Chandler, A.D. (1962, 1990). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. The MIT Press. p. 14.
[51] Chandler, A.D. (1962, 1990). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. The MIT Press. p. 14.

headquarter rather than just an administrative unit since the demand of coordination between the two field units has increased. Now, the reporting structure is the same as with the single field unit; both field units now reports directly to the administrative office.

The departmental headquarter

The task for the departmental headquarter is to coordinate, appraise and plan for the different field units, that still only perform only one function, but now each field unit handles different geographical areas. As stated earlier, the main task for the departmental headquarters relative to the administrative office is to plan, coordinate and appraise the different field units. In practical terms, this could e.g. include inventory management (moving excess inventory to the other unit), sales management (coordinating sales so the customer could buy from the nearest sales office), or planning and coordination of procurement in order to increase bargaining power and as a result drive down unit costs. Now the firm is so big so the CEO and group management can't handle some of the administrative issues anymore such as payment of salaries, invoices etc., hence a new group of employees is needed to conduct these duties – the support staff.



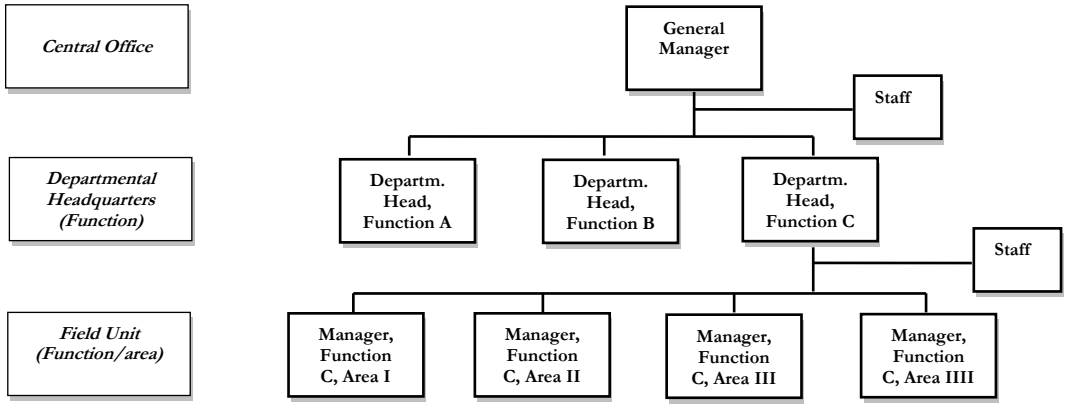
PICTURE 5: THE DEPARTMENTAL STRUCTURE AND THE DEPARTMENTAL HEADQUARTER

The multidepartment structure

The third stage in Chandler's growth strategy pattern – vertical integration – means as stated that a firm takes on more steps in the value chain within its boundaries. In other words, the firm that first performed one function and then integrates vertically now performs two or more functions, e.g., a manufacturing firm may integrate vertically forward into distribution of its own manufactured goods, recall the example with the distributor and the manufacturer above. These two different functions now need some function to coordinate, appraise and plan for them, which gave birth for the central office.

The central office

The main task of the central office is e.g. to coordinate between sales and production so the firm doesn't have to bare excess inventory due to lack of communication between the two functions, or to coordinate in order to prevent that the sales people doesn't close deals the production function can't deliver on. The reporting structure now takes the form of that the field units reports to the departmental headquarters which in turn reports to the central office and hence the CEO. The central office is also what in daily language is called division when the firm later diversified.



PICTURE 6: THE MULTIDEPARTMENT STRUCTURE AND THE CENTRAL OFFICE

The multidivisional structure

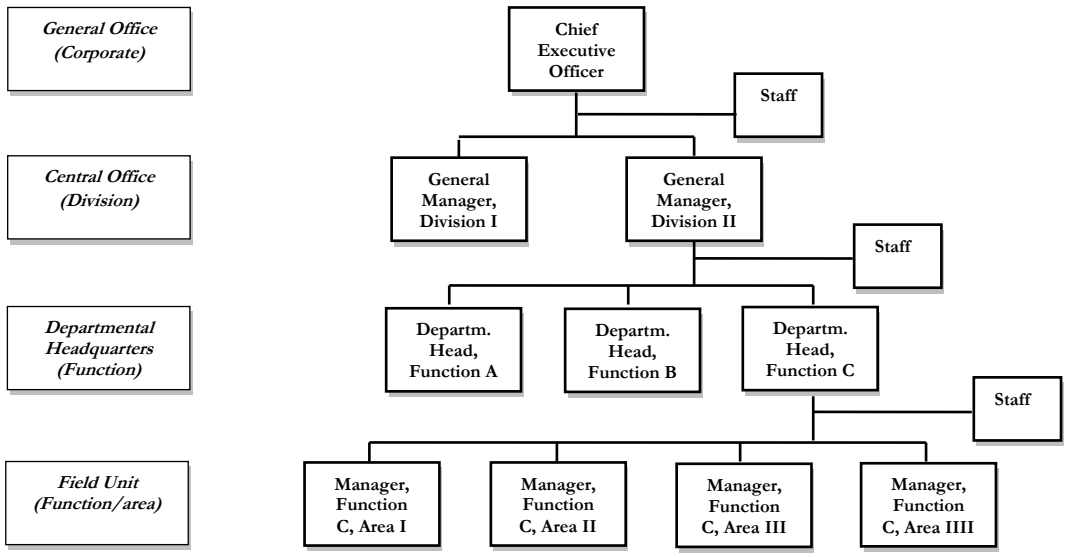
The multidivisional structure occurred when the firm took the last step in Chandler's found expansion pattern: diversification. When the firm started to develop products on the same horizontal (compared

to vertical) level as before, but now in a new industry or a new industry segment – related or unrelated – the firm became restructured again. Now, the firm divisionalized by creating more or less autonomous divisions. The creation of divisions also moved some of the power structure in the firm since every division operated almost like a single firm with their own balance sheet, reporting structure etc. The organizational decentralization were a direct response to the more and more rapid changes in the market and hence also competitors. The time between a market change and a response from the firm now became quicker since the general manager of the division didn't have to ask the general office for "permission" to formulate and implement the required response. This structure became in particular critical for firms who operated in market

who were characterized by rapid change and technological development.[52] This is an important observation since all the investigated firms in this thesis – ABB, Electrolux, SSAB and Volvo operates in markets with the characteristics described above.

The general office

The creation of the general office was a necessary move in order to coordinate the divisions and at least some of their decisions. These decisions could e.g. be the realization of operating or financial synergies. Looking at the theory, this could e.g. mean that the divisions share common activities and hence can lower the overall corporate cost structure through coordination. The reporting structure looks as described earlier, away from the fact that the central offices reports to the general office and the group CEO.



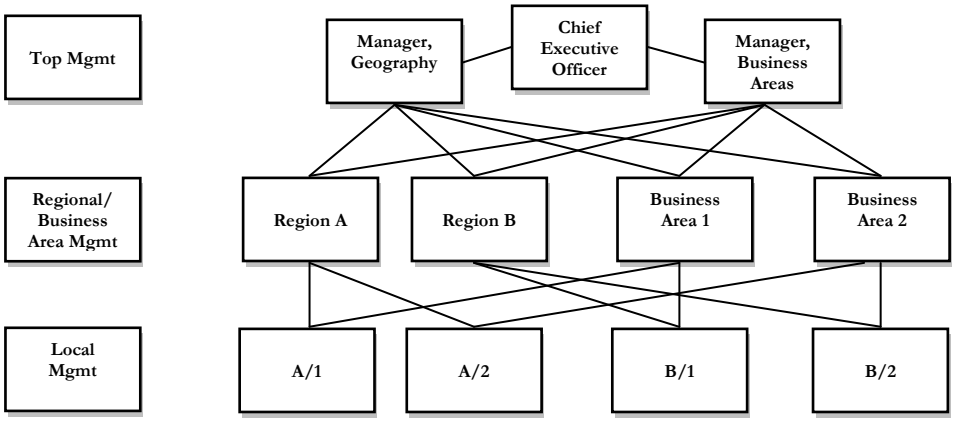
PICTURE 7: THE MULTIDIVISIONAL STRUCTURE AND THE GENERAL OFFICE

The matrix structure

In some cases, the divisionalized structure takes another form. The multidivisional structure uses operating divisions in order to increase the quickness of responses. The

[52] Bartlett C.A., Ghoshal S. (1993). *Beyond the M-form: towards a managerial theory of the firm*. Strategic Management Journal, Vol. 14, 23-46

structure now described – the matrix structure – shares many common characteristics with the multidivisional structure. Recall the reporting structure earlier only required the manager – at any level – to report to the next level in the hierarchy. Now, a new dimension in the organizational structure is created and hence, the reporting structure changes again. The matrix structure first of all has two different dimensions which e.g. could be business area and geographical area. The reason for building in another dimension is two types of external pressures. First, the firm needs to be able to leverage its global scale in order to drive down unit costs, and second, the firm needs to be locally adapted and responsive due to differences in culture, government policies etc.[53] In practice, the matrix structure means that every manager has dual reporting responsibilities,[54] both to the closest business area manager and to the closest geographical area manager. For example, a general manager in Sweden needs to report to both the global business area manager for and to the manager responsible for the region to which Sweden belongs. By doing this, the responsibility allocation between the two dimensions makes the group both to leverage their global scale (through the business area managers) and to be locally responsive (through the regional managers).

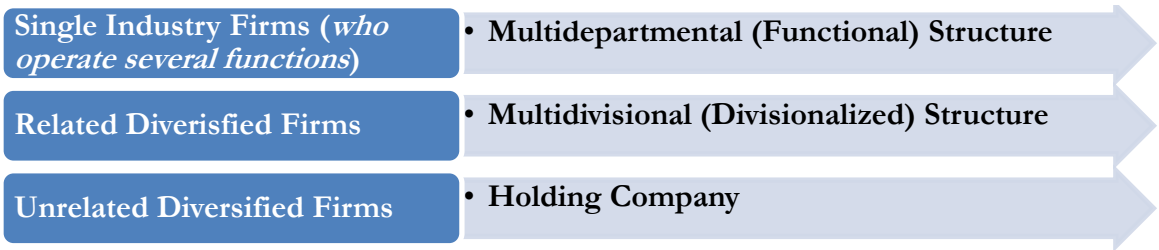


[53] Bartlett C.A., Ghoshal S. (1993). *Beyond the M-form: towards a managerial theory of the firm*. Strategic Management Journal, Vol. 14, 23-46. P. 4.
[54] Ibid.

PICTURE 8: THE MATRIX STRUCTURE

3.4 Connecting strategy and structure in theory

The literature in the area of strategy and structure confirms what Chandler states regarding which structure that belongs to which strategy. This means that the firms given their state of expansion strategy should follow a certain organizational structure. It is rather clear that more modern theory in management control support Chandler's findings regarding strategy and structure. Modern literature[55] states clearly the same connection that Chandler found. Below, a summarizing picture of which organizational structure that fits to a given state of strategy is given:[56]



PICTURE 9: STRATEGY DRIVES STRUCTURE IN THEORY

3.5 Theory summary and hypothesis

In the theory chapter, it was first described that the investigated firms – in Chandler's findings 1962 – grow through a certain expansion strategy pattern. This pattern told us that the first expansion strategy for the firm was to expand its volume in the same geographical area with the same product(s). The second expansion strategy pattern was to expand its geographical area with the same product(s) the firm initially started with. The third expansion strategy was to expand the vertical scope through vertical integration – forward or backward. Lastly, the fourth expansion strategy was to diversify into new industries or industry segments through product development. These

[55] Anthony R.N., Govindarajan V. (2007). *Management Control Systems*. McGraw – Hill. P. 577
[56] Ibid.

strategies could occur both on the corporate strategy and business strategy level. Hence, the first hypothesis can be formulated.

> H1: *"The investigated Swedish firms have used all the expansion strategies Chandler found in American firms with the same characteristics"*

But as stated above, Chandler did not only find four different expansion strategies, he also found that the firms used these expansion strategies in the same chronological order which resulted in hypothesis 2.

> H2: *"Given the expansion strategies the Swedish investigated firms implemented, the investigated firms follow the same chronological order regarding their expansion strategies that Chandler found when investigating American firms"*

Chandler also found patterns regarding the firms' organizational structure. The expansion of volume led to the set up of an administrative office to administer the increased volume. The second expansion strategy of geographical expansion led to the structure of the departmental headquarters in order to plan, coordinate and appraise the different field units. The third expansion strategy – vertical integration – led to the multidepartmental structure and the creation of the general office. Lastly, the strategy of product diversification led to the multidivisional structure and the general office. As explained in the method chapter, I have not been able to find out how the firms have been structured given their earlier strategies, so the only information that can be observed here is the present structure. Further, the question whether the multidivisional structure was a function of the historical time when Chandler

investigated his firms or not will be investigated. Hence, the third hypothesis could be developed.

> H3: *"The Swedish investigated firms have the same organizational structure that Chandler suggested 50 years ago, that is, all of the investigated firms are structured by multidivisional organizations"*

The three hypothesis aims to answer the problem formulations and hence outline how big the perspective of geography (Sweden vs U.S.) and historical time points have on expansion strategies and organizational structure.

4 The studied firms structure

When investigating the firms, I will first go through their historical expansion and growth patterns step by step. Second, I will go through their present organizational structure and try to describe it from what the different firms has chosen to disclose. As earlier stated it has in some cases been extremely hard to find information regarding the organizational structure so in this section I will go through the firm structure and the executive management structure.

4.1 Method for choosing the firms

The decision of which firms to investigate was very critical. This is due to that the firms – in order to used as a benchmark against Chandler's historical findings – needed to share as many common characteristics as possible. Hence, in deciding which firms to study, I used three selection criterions. The first one was to only look at firms listed on the OMXS 30 index[57], in order to fulfill the criteria of very large firms Second, the firms

[57] Nasdaq OMX Web Page

Chandler studied were all industrial ones,[58] which led me to also let this be a criterion. Lastly, in order to be able to study the impact of expansion strategy on organizational structure, thereby, I only looked at diversified firms. In other words, the firm must be operating in several – related or unrelated – industries or industry segments. This left me with fourteen firms listed on the OMXS30: ABB, Alfa Laval, Atlas Copco, Boliden, Electrolux, Ericsson, Getinge, Nokia, Sandvik, SCA, Scania, SSAB, Swedish Match and Volvo. After having consulted my advisor, Peter Hagström, we concluded that four firms would be a reasonable number of firms to study. After that, I simply wrote down these fourteen firms on fourteen different notes, and let three students from Stockholm University[59] draw four of these notes in order to pick four firms randomly. The four firms that the students draw was: ABB, Electrolux, SSAB and Volvo.

4.2 ABB

Expansion strategies

ABB is a result of a merger between the two firms Asea and Brown Boveri in 1987.[60] Hence, I will go through both firms history separately until the merger became a fact, and after that I will treat the firm (ABB) as one.

In 1883 the firm Elektriska Aktiebolaget was founded with the core competence of production of electrical lamp supplies.[61] In the year 1890, the firm merged with Wenströms & Granströms Elektriska Kraftbolag which had the core competence of power transformation for industry and transports.[62] The result of the merger was the corporation Allmäna Svenska Elektriska Aktiebolaget which later would be called

[58] Chandler, A.D. (1962, 1990). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. The MIT Press. P. 1.
[59] See Appendix 1
[60] ABB Web Page
[61] Ibid.
[62] Ibid.

Asea.[63] In the 1940s and 1950s, Asea expanded through product diversification into helping customers in new industries such as power, steel and mining.[64] In the 1980s Asea was one of the ten largest corporations operating in the electro technical area, now 2/3 of the turnover were generated by the Nordic and European markets.[65]

Brown Boveri (BBC) was founded in 1891.[66] BBC's core competence was to develop steam turbins and right before world war 1, BBC developed the largest steam turbine in the world. BBC started in Switzerland, but established subsidiaries all over the world, although the core market focus still was in Switzerland and Germany.[67]

In 1987, Asea and BBC made it a public fact that they were going to merge under the name ABB Asea Brown Boveri Ltd.[68] The owner structure consisted of 50% ownership from Asea and 50% ownership from Brown Boveri.[69] In 1988, the new corporation had a turnover of 100 billion Swedish krona and over 160 000 employees over the world.[70] The new groups CEO became the old CEO of Asea – Percy Barnevik. Right after the merger, ABB acquired the majority share in the Norwigan telecommunication- and industry conglomerate Elektrisk Bureau A/S.[71]

Organizational structure

The structure will be described from the time when the two firms in question merged into ABB. After the merger, Percys Barnevik took over as CEO of the new group ABB. He started to restructure both firms into one in more than one way since Barnevik was a

[63] Ibid.
[64] Ibid.
[65] Ibid.
[66] ABB Web Page
[67] Ibid.
[68] Ibid.
[69] Ibid.
[70] Ibid.
[71] Ibid.

strong believer in decentralization.[72] The new firm ABB was structured as a matrix with one geographical dimension and one business area dimension.[73] The reason for doing this was that Barnevik wanted to create a culture characterized by the fact that the staff in every entity belonging to ABB shouldn't feel that they were belonging to a large firm. Instead, he wanted to encourage entrepreneurial activities through the implementation of the feeling that every little entity was their own firm.[74] The result became the matrix which ABB still applies today.

Today, ABB is structured around eight regions: Northern Europe, Central Europe, Mediterranean, North America, South America, India-Middle East-Africa, North Asia and South Asia. At the same time, the other divisions consists of five business areas – or divisions – in terms of Power Products, Power Systems, Discrete Automation & Motion, Low Voltage Products and finally Process Automation.[75] Looking at the group management structure, it consists of CEO, CFO, executive HR, General counsel, executive Marketing, executive global markets, head of power products division, head of power systems division, head of discrete automation and motion division, head of low voltages product division and head of process automation division.

4.3 Electrolux

Expansion strategies

What later become known as Electrolux, was first named AB Lux, Stockholm and started in 1901.[76] The first product was the Lux lamp, which were a lamp for outdoor usage and

[72] Bartlett C.A., Ghoshal S. (1993). *Beyond the M-form: towards a managerial theory of the firm*. Strategic Management Journal, Vol. 14, 23-46. P. 4.
[73] Ibid.
[74] Ibid.
[75] ABB Web Page
[76] Electrolux Web Page

were a big success in terms of sales.[77] In 1908 the firm is moved to Lilla Essingen in Stockholm and at the same time the firm starts to look for new products to develop.[78] The result is the first vacuum cleaner – Lux 1 – after engaging in a strategic alliance with Axel Wenner-Gren.[79] Axel Wenner-Gren also becomes Lux export agent in countries such as U.K., France and Germany.[80]

In 1915, Axel Wenner-Gren starts Svenska Elektron, and in 1918, Lux and Elektron starts an alliance and close cooperation in which Elektron (who already had acquired Elektromekaniska) acquires 49% of the shares in AB Lux.[81] 1919, it was time for the two firms (AB Lux and Elektron) to merge and become what we today call Electrolux.[82] The refrigerator was founded in 1923 from Baltzar von Platens innovation which served as a base for the development.[83] In Berlin, Electrolux sets up its first production operations in 1926.[84]

The dispersion of international production operations continues with U.K. (1927), France (1927) and the U.S. (1931)[85].[86] At this time (1928), Electrolux has an international turnover of 70 million SEK, five plants and 250 sales offices around the world.[87] In 1944, Electrolux acquires Bohus Mekaniska Verkstads AB which produced industrial washing machines and hence, diversifies into a new product area.[88] The major acquisitions continue in 1962 when Electrolux acquires ElektroHelios with its 2500

[77] Ibid.
[78] Ibid.
[79] Electrolux Web Page
[80] Ibid.
[81] Ibid.
[82] Ibid.
[83] Electrolux Web Page
[84] Ibid.
[85] Electrolux Web Page
[86] Ibid.
[87] Ibid.
[88] Electrolux Web Page

employees.[89] The acquisition was a way for Electrolux to enter another new market – the market for cookers.[90] In 1969, Electrolux starts its first subsidiaries in the U.S. and Hong Kong.[91] The entry into the market for kitchen production and bathroom cabinets became possible in 1973 through the acquisition of the office machinery firm Facit. The acquisitions continue further through the major purchase of the large metal conglomerate Gränges which produced mines, aluminum, copper, and steel work.[92] The business area outdoor products acquire in 1986 three new firms and the Electrolux annual turnover now reaches 53 billion SEK.

In 1989 Electrolux enters the Japanese market through a sales agreement with Sharp regarding Electrolux white goods. A two year restructuring program starts to be implemented in 1997 – the same time as Michael Treschow takes over the firm as CEO and president – with the goal of increasing profitability.[93] At the same time, divestment is made through the sale of the industrial products sector and continues with the divestment of operations in recycling, kitchen and bathroom cabinets.[94]

The restructuring program is completed in 1999 and has resulted in personnel cut backs of 11 000 and closure of 23 production plants and 50 warehouses. Although, in 1999 the streamlining of the group continues with the divestment of operations in food and beverage vending machines in addition to a large part of Electrolux operations in direct sales and professional refrigeration equipment.[95] In the same year, Electrolux also

[89] Electrolux Web Page
[90] Ibid.
[91] Ibid.
[92] Electrolux Web Page
[93] Electrolux Web Page
[94] Ibid.
[95] Ibid.

enters a joint venture with Ericsson in order to develop products for the "networked home".[96]

Organizational structure

Looking at the structure of Electrolux, the firm is structured by five business areas.[97] These business areas are in turn divided into sectors meaning that the business areas for reporting purposes are split up in geographical areas.[98] Although, it is the sectors and not the business areas that builds the structure of the executive management. In addition to the CEO and the support functions such as the CFO, legal, marketing etc., it is the sector heads that comprises the executive management.[99] Every sector has its own profit and loss statement and balance sheet, and the CEO – Keith McLoughlin is the chairman in every sector.

4.4 SSAB

Expansion strategies

SSAB became one corporation through the merger in 1978 between Domnarvets Järnverk which was founded in Borlänge,1873, Norrbottens Järnverk which was founded in Luleå 1940 and Oxelösunds Järnverks AB 1913.[100] The merger was a result of a decision from the Swedish parliament which also took the role of majority owner in the merged entity called SSAB.[101] The decision was a result of several changes in the macro environment such as energy crises, excess capacity, high costs for labor and old equipment.[102] Although, SSAB's history starts earlier. Oxelösunds Järnverks AB was

[96] Ibid.
[97] Electrolux Web Page
[98] Electrolux Web Page
[99] Electrolux Web Page
[100] SSAB Web Page
[101] Ibid.
[102] Ibid.

started in the beginning of 1900 through the creation of an iron oven and a power station which in turn resulted in an iron mill.[103] The same iron mill were in 1957 expanded into an integrated iron- steel- and vase mill which was finished in 1961. As earlier stated, the three entities were merged into what today is called SSAB.

After the merger, SSAB formulated a strategy that had its core in focus of smaller market segment products which also resulted in smaller divestments in order to increase profitability.[104] At the same time point as the merger, SSAB had eight iron ovens which can be compared to the three SSAB today operates but with a substantially higher volume.[105] In 2007, SSAB made a major acquisition of IPSCO North America which was one of the largest acquisitions in modern Swedish history.[106]

Organizational structure

SSAB is structured around the three business areas SSAB EMEA (Europe, Middle East and Africa), SSAB Americas (U.S.) and SSAB APAC (Asia Pacific).[107] Under each division there is then a functional organization consisting of e.g. finance, marketing, sales, HR etc. In addition to this structure, SSAB operates a number of sales subsidiaries in order to serve the business areas. The group executive management consists of the CEO, head of EMEA, head of Americas, head of APAC, head of legal, CFO, CMO, CIO and head of HR.

[103] Larsson E. & Rova E. 2007
[104] SSAB Web Page
[105] Ibid.
[106] Ibid.
[107] SSAB Web Page

4.5 Volvo

Expansion strategies

Volvo was founded in 1927 in Gothenburg, Sweden.[108] The first car, truck 1 was sold out and during the 1930's, the car was exported in the Nordic countries.[109] The concept of quality and safety was already from the start the main differentiating strategy.[110] In 1929 Volvo acquired their engine supplier in addition to the acquisition of its first factory.[111] Thanks to Volvo trucks sales, Volvo corporation now were a solid firm.[112]

The goal of producing 10 000 cars was reached in 1932 and at the same time Volvo started looking into the possibility to produce more cost efficient cars that would have a lower end price and hence was targeting the "ordinary people".[113] Volvo also started to acquire other firms such as a supplier of gearboxes in 1942. [114]Volvo was also affected by world war II in the way that the demand and hence volume increased.[115] In the 1960's, the PV444 described as Volvo's first small car was dominating the production in Volvo and also was the first car to enter the U.S. market.[116] At the same time (1962), Volvo also started to manufacture and sell tractors for farms.[117] In 1964, Volvo continued to expand its volume by the opening of a new factory in Torslanda which had the capacity to produce 200 000 cars per year.[118] The opening of the production plant in Torslanda gave Volvo the opportunity to shape a new market for a new car. The car was

[108] Volvo Group Web Page
[109] Ibid.
[110] Volvo Club Web Page
[111] Ibid.
[112] Volvo Group Web Page
[113] Volvo Club Web Page
[114] Volvo Group Web Page
[115] Volvo Group Web Page
[116] Ibid.
[117] Volvo Group Web Page
[118] Volvo Club Web Page

the Volvo 140, and the new market became to be families.[119] The same year Volvo also opened a production plant in Belgium, and important move in order to reach to the rather closed European market.[120]

The 140 was then replaced as the family car by the Volvo 240 which also had higher levels of safety and quality.[121] In the end of the 1970's, the smaller 340, made Volvo's volume to exceed 4 million.[122] Volvo established a new production plant in Brazil in 1980 which aimed to produce truck chassis.[123] The major subsidiaries Volvo PV, Volvo LV, Volvo Busses, Volvo Components, Volvo Cars, Volvo Penta and Volvo Data was founded in 1982.[124] Volvo acquires GM Heavy Truck Corporation in 1986 in order to gain their distribution network in U.S. and Canada.[125] In the mid 1990's (1994), Volvo changed their strategy and started to focus more on their core business.[126] Volvo implemented this strategy reformulation by divesting all business that weren't directly connected to transport or vehicles.[127] But the divestments didn't stop with the sales of unrelated business, in 1999 Volvo PV were sold to Ford Motor Firm.[128] In the year 2000, Volvo started a new business area, Volvo financial services, in order to handle questions such as insurance, customer financing and taxes in-house.[129]

Organizational structure

Volvo is structured after divisions (which Volvo calls business areas) which either means that a business area is product specific or that the business area is a support

[119] Ibid.
[120] Volvo Group Web Page
[121] Volvo Club Web Page
[122] Ibid.
[123] Volvo Group Web Page
[124] Volvo Group Web Page
[125] Volvo Group Web Page
[126] Volvo Group Web Page
[127] Volvo Group Web Page
[128] Volvo Group Web Page
[129] Volvo Group Web Page

function to other business areas.[130] The product related business areas are Volvo Truck, Renault Trucks, Mack Trucks, UD Trucks and Buses.[131] The other type of business areas who are more characterized by support functions, are Volvo 3P, Volvo Power train, Volvo Parts, Volvo Logistics, Volvo Technology, Volvo Group Real Estate.[132] Looking at the group management structure, the CEO and president leads the group management which in turn consists of group vice president, president Volvo Trucks, president Renault Trucks, president Mack Trucks, president North American Trucks, president UD Trucks, president Volvo Buses, president Construction Equipment, president Penta, president Aero, president Financial Services, president Power train, president Trucks Asia, vice president HR, CFO, General Counsel, president corporate communications and president public and environmental affairs.

5 Analysis

5.1 ABB

As seen in section 4.2.1, both Asea and BBC started out as small single industry firms, which expanded their volume over time. Asea started with the expansion strategy of volume expansion in their home market and started after to expand into the suppliers industry. Hence, the second expansion strategy was to integrate vertically backwards when they in 1889 started to produce generators, transformers and motors.[133] They integrated vertically into the supplier's stage of the value chain organically through new innovations of these supplies.[134] In 1893, Asea expanded geographically into other

[130] Volvo Group Web Page
[131] Volvo Group Web Page
[132] Ibid.
[133] ABB Web Page
[134] Ibid.

countries such as U.K., Spain, Denmark and Finland.[135] The entry modes in to new countries were primarily export and foreign direct investment in subsidiaries and in the end of the century about 70% of the turnover came from foreign markets.[136]

However, in the 1940s and 1950s, Asea's expansion strategy primarily came from the entering into new industry segments as earlier stated, which in this case could be classified as product

diversification, since every new customer segment required more or less tailored product in order to fit their specific needs. Picture 10 summarizes the generic expansion strategy pattern in Asea.

PICTURE 10: THE FIRST EXPANSION STRATEGY PATTERN IN ASEA



PICTURE 10: THE FIRST EXPANSION STRATEGY PATTERN IN ASEA

PICTURE 10: THE FIRST EXPANSION STRATEGY PATTERN IN ASEA

The picture describing Asea's expansion strategies should though only be interpreted as the first expansion strategies in Asea. After the diversification of products showed in the picture, Asea continued to expand through both volume integration and geographical expansion. Hence, there is not possible to draw a general conclusion of which expansion

[135] Ibid.
[136] Ibid.

strategy that has been dominating in a given time period since they operated several expansion strategies simultaneously.

In BBC on the other hand, the expansion strategy pattern looked slightly different. Just as Asea, BBC started with volume expansion. In practice, they did this through the building of a factory in Oerlikon, Switzerland, where ABB's headquarter currently is located.[137] The development of steam turbines gave BBC the possibility to expand through geographical expansion into through foreign direct investments in subsidiaries all over the world. Although, Switzerland and Germany remained as the home markets. Picture 11 summarizes the expansion strategy pattern in BBC.



PICTURE 11: THE FIRST EXPANSION STRATEGY PATTERN IN BBC

When the merger between the two firms later became reality, this could certainly be seen as a move towards a more diversified business, since Asea and BBC operated in related, but still different industries. This concludes the final stage of total industry diversification in the two firms.

However, the suggested expansion pattern by Chandler doesn't really fit with this picture since the order is different. Both Asea and BBC started with volume expansion, but the next step they have chose different expansion strategies. Asea started to integrate vertically and BBC to diversify its product range. Although, the third step for both of them is geographical expansion. Through both the expansion of volume, vertical

[137] Ibid.

integration and product diversification both the firms also got a better knowledge of their core home market. Both from the perspective of what the customer wants and how the competitive situation looks like and how to handle this etc. This could be interpreted as that knowledge about the industry structure etc. in their home market has been essential in order for the firms to feel ready to expand into new markets in term of new countries. In other words, since the expansion strategy patterns differs among the firms, the common factor for their expansion strategies is that the first two strategies occur in the home market. Still, the same interpretation needs to be made in BBC as in Asea regarding the exact pattern of expansion strategies meaning that they also have expanded using several different strategies after the initial pattern.

Looking at the structure of organization after the merger, the most rational after consulting Chandler's theory would be to structure the organization in to several large divisions with a general office that handles planning, coordination and appraisal. Although, this was not the case due to the matrix structure. Barnevik choose to have a reporting structure that had dual reporting obligations. This is a radical deviation from Chandler's theory since this structure doesn't even were known before Barnevik formulated and implemented it. Although, the matrix structure share some characteristics with Chandler's described multidivisional structure. The purpose of the structure is a common factor for instance. Recall that a major purpose was to increase the division's responsiveness towards changes in the economy which in turn affected the market and the firms products. Also recall that the goal of the matrix structure was to leverage the global scale in order to be cost efficient at the same time as being locally adapted and locally responsive. So, from this perspective what is it that Chandler's suggested structure lacks? Starting to look at the difference from the perspective of

global integration (leveraging the global scale), the multidivisional structure would to some extent provide the same benefits. Every division could leverage its global scale since the only thing required here is a rather standardized strategy that the division uses all over the world. This would in practice mean that the division chooses to standardize the product components, production processes, distribution processes, the final product in addition configure and coordinate both upstream and downstream activities as much as possible. By doing this, the division could reap both economies of scale and economies of scope between countries. Hence, the divisional structure could be seen as fulfilling the first goal of the matrix structure – the cost benefits of global integration. Looking at the other aim of the matrix structure, to be locally responsive through the reporting to regional managers in addition to business area managers, the multidivisional structure faces a classical tradeoff. The tradeoff regards if the division should standardize the maximum number of activities in the way just explained or if it should encourage local initiatives in order to adapt locally. The matrix structure tries to overcome this tradeoff through the dual reporting structure and in particular though the reporting to regional managers as well. Through having the manager reporting to a regional/geographical manager as well, the structure aims to be more responsive when it comes to local geographical changes and hence, the matrix structure would have overcome the classical tradeoff between global integration and local adaption. In here lies the difference between the multidivisional structure and the matrix structure.

However, if the implementation of a matrix structure really has overcome this classical and fundamental tradeoff, why hasn't every large diversified and international firm implemented it? My interpretation is that the implementation of the matrix structure brings the following problem. Consider for example the following scenario: manager in

country A over product 1 needs to both report to the region manager for countries A, B and C in addition to the manager for product 1, 2, and 3. The manager for the countries A, B and C needs to report to the manager responsible for country A, B, C, D, E and F at the same time he needs to report to the manager for product 1, 2, 3, 4, 5 and 6. This implies a rather complicated reporting structure since every manager reports to two managers. In turn, this must require close contact between the managers on the horizontal level as well since the geographical manager constantly needs to coordinate with the business area manager and vice versa. Hence, the matrix structure may be better suited in order to meet the classical tradeoff between global integration, but implies also higher costs for administrating the dual reporting structure. This could be a fundamental incentive for other firms to not use the matrix and instead go with Chandler's multidivisional structure.

5.2 Electrolux

In the case of Electrolux, they started – in accordance with Chandler's findings – with the strategy volume expansion with the Lux lamp. In 1908, Electrolux started to look for other products to develop which resulted in the strategic alliance with Axel Wenner-Gren. The strategic alliance then resulted in the diversification products in terms of the new vacuum cleaner – Lux 1. After the development of the new vacuum cleaner, the strategic alliance led by Axel Wenner-Gren, started to export the products internationally, or more in particular to France, U.K. and Germany. Now the first pattern of expansion strategies could be distinguished. The expansion pattern Electrolux used is summarized below.



PICTURE 12: THE FIRST EXPANSION STRATEGY PATTERN IN ELECTROLUX

The expansion pattern implemented in Electrolux is the same as in BBC, meaning that also Electrolux deviates from Chandler's findings regarding expansion strategy patterns. What also is worth noticing is that the geographical expansion into other countries comes rather late in the process, even after the diversification of products. Again, this implies that the firm has a need for experience of the home market and to "learn" how to operate a business before an international market entry. In the picture above, the geographical expansion was however not the last strategy for expanding the group. Electrolux has – as stated in the empirics – gone through with a lot of acquisitions of business both related and not related to their core competence. This also implies – again – that it isn't possible to distinguish a chronological pattern of expansion strategies since the same strategies are used again and again in order to expand the business.

Many years later – in the mid 1990's, Michael Treschow takes over as CEO and president of Electrolux. He also implements the restructuring program which in practice meant to divest businesses that were not more or less closely related to Electrolux core-competence and business. This could be interpreted as an inverted type of expansion since results in the exact opposite of what product diversification leads to. As stated earlier, product diversification means the expansion of the product range so the firm also competes in other industries or industry segments than the original core competence. This in turn broadens the group's total operating industry scope. The divestment of businesses meant in Electrolux case to sell or liquidate unrelated

businesses in order to narrow down the scope of the group again and to go back to the strategy of focusing on its original core competence. The restructuring and strategy change in Electrolux took the shape of selling the industrial products sector in addition to the divestments of the business that focused on recycling, kitchen and bathroom cabinets. Finally, Electrolux concluded its divestments through getting rid of the operations in food and beverage vending machines.

Looking at Electrolux organizational structure, they are structured around business areas which in turn are structured into sectors. This implies that Electrolux in large follows Chandler's findings since the sectors could be interpreted as divisions. Since Electrolux is a diversified firm, this structure is the most suitable according to the earlier explained theory. The organization could be confusing since it is said to be structured around business areas, but in reality is structured around sectors (who in turn is structured around business areas). If Electrolux had chosen to actually structure the group around business areas instead of sectors, this would have created a rather large bias in the group management. This is due to the fact that the different business areas not only differ in their core competence, but also to a large extent in size. Hence, if Electrolux had structured the group around the different business areas, some of the business area managers would have a more substantial responsibility than others since their business areas could be more than double measured in size compared to another business area. Take for example the business area Major Appliances, it would be impossible to have a this business area as a division at the same time as having the business area floor care as a division due to the huge difference in size between those two. Hence, a practical solution – given the wish to structure the group into a multidivisional structure – is to structure the divisions into sectors. This implies that

even if Electrolux organizational structure is divisionalized, it does not exactly follow the previous findings by Chandler which would mean that every division should compound a business area. In other words does the structuring in the case of Electrolux depend of the nature of their earlier expansion. The "nature" here means that size and growth of the entered business area needs to be taken into account when the group is structured. As stated earlier the practical solution here was to split up some of the larger business areas into sectors, and let the smaller business areas be called sectors in order to be consistent but still practical in the structuring of the organization.

5.3 SSAB

SSAB is as stated earlier a result of a merger between Domnarvets Järnverk and Norrbottens Järnverk. Both entities started to expand by using the strategy of volume expansion until the merger. I have not found any signs of either geographical expansion or vertical integration before the merger. Although, the entry from only operating iron mill(s), into the integration of iron-, steel-, and vase mills could be seen as a form of product diversification which concludes a changed expansion strategy pattern. The merger in itself could be seen as a type of volume expansion since this thesis doesn't make a distinction of the technical expansion (mergers, acquisitions or organic growth). Although, SSAB's major acquisition in 2007 of the north American firm IPSCO must be interpreted as an expansion of their geographical scope, and in turn, a third stage in SSAB's expansion strategy pattern could be seen. SSAB's expansion strategy pattern is presented below:



PICTURE 13: THE FIRST EXPANSION STRATEGY PATTERN IN SSAB

Having concluded that SSAB is a diversified firm, we can now go further and look at their organizational structure. As stated earlier, Chandler concluded that the last step in the growth and expansion strategy pattern was to diversify into new product segments, which in turn called for a new structure. This new multidivisional structure is described as if every division is responsible a product/business area. SSAB does have a multidivisional structure with the classical general office, but the different divisions (or business areas as SSAB calls them) is not structured around product areas. In the case of SSAB, they have decided to structure their organization after geographical divisions, meaning that every division handles several different product areas, but within its geographical area. Recall that this structure in theory reminds of the departmental structure and the departmental headquarters which main responsibility was to plan, coordinate and appraise the different geographical units. The main thing that differs SSAB's structure from this one, is the fact that SSAB's geographical divisions could be called divisions since they include a multifunctional structure meaning that they handles both production and sales e.g. This could be compared to the departmental structure that only aimed to handle one function (e.g. sales), but in several geographical areas.

5.4 Volvo

Volvo started with expanding the volume of truck 1 which could be seen as a very natural step in their attempts to grow the firm. However, it only took three years before they started export cars into other Nordic countries. Even through, the strategy for

entering new international market was export (and not foreign direct investments), this must be seen as the second step in their expansion strategy pattern – geographical expansion. When Volvo later acquired their engine supplier, they took on a new part of the value chain in house. This is clearly an expansion of

Volvo's vertical scope though backward vertical integration which concludes the third step in Volvo's path against growth and expansion. Through the opening of new subsidiaries such as Volvo LV, Volvo Busses etc., Volvo diversified into new product segments. Although, the international expansion continued when Volvo entered several other geographical areas both within and outside Europe as well as the U.S.



PICTURE 14: THE FIRST EXPANSION STRATEGY PATTERN IN VOLVO

Looking at the organizational structure of Volvo, they state that they are structured after divisions (business areas in Volvo's language). Although, as stated in the empirics, these business areas come in two forms. First, Volvo has product related business areas (which is in line with Chandlers theory) meaning that these business areas are investment or profit centers. Second, they have support related business areas, meaning that they are cost centers that only are responsible for a part of the cost structure, but not of a part of the profit structure since they don't have any revenues. Although, it is hard to know if these function related business areas trade with the product related business areas through internal transfer prices. If that is the case, they could also be interpreted as profit centers and hence more like ordinary divisions.

If that's not the case, Volvo's structure could be seen as having two dimensions meaning that their structure reminds of ABB's structure. Hence, Volvo's structure could be seen as a matrix in opposite what they describe themselves as. This is the case, since a product related business area most probably uses several support related business areas.

6 Conclusions

This thesis has first described growth and expansion strategies, both the reason for the individual expansion strategy and what it means. Furthermore, the thesis has described the relation between these expansion strategies, that is, that Chandler found that they come in a chronological order starting with the expansion of volume, continued by the expansion into new geographical areas which in turn were followed by the expansion of the vertical firm scope. Finally, the firm expanded through product diversification meaning that the horizontal scope became expanded.

Looking at the four investigated firm's ABB, Electrolux, SSAB and Volvo, they all used a combination of these strategies but not all of them. For instance, some of the firms are not yet vertically integrated. Hence, the investigated firms in Sweden doesn't use the same number of expansion strategies Chandler found in the U.S.

However, another pattern was discovered when investigated the firms, several of them divested business between 1980 and 2000 in order to focus their operation on their original core competence. This could be seen as an inverted fifth step in Chandler's found expansion strategy pattern. In sum, all of the investigated firms didn't use all Chandler's found expansion strategies meaning that H1 not is supported.

When looking at the order of the expansion strategies, one thing that became clear is that several of the investigated firms waited with geographical expansion until they had some experience and knowledge of the home market. In other words, several of the firms integrated vertically and/or diversified into new product areas in addition to increase the volume before they expanded their geographical scope. Furthermore, the firms expanded through several of the strategies simultaneously but also used them over and over again, meaning that the investigated firms in Sweden differed also from this perspective relative Chandler's investigated U.S. firms. As a result, H2 isn't supported either.

Regarding the firms organizational structure, this was the trickiest one to conclude. This was the case since all of the firm at a first glance could be said to have a multidivisional structure, but the firm's individual definition of a division didn't match. In the case of ABB, they have two types of divisions, first they have business area divisions and second, they have geographical divisions. On the other hand, Volvo is also structured around divisions, but they define their divisions in terms of business areas, and support functions while SSAB defined their divisions as geographical regions. The result is that all the investigated firms are organized through a multidivisional structure, but not all of them had it as a result of their product diversification strategy as Chandler suggested. Thereby, the multidivisional structure is not a function of a time point in history, but rather a function of which expansion strategy that is dominant in the individual firm. In other words, all the firms were structured after divisions, but their definition of divisions differed. Hence, H3 is only partly supported.

6.1 Strategy drives structure

Chandler said that structure follows strategy. The main findings here are that this is true, but not in the way Chandler meant. Looking at the firms structures, all had a multidivisional organization, but they defined their divisions (which they called business areas) in different ways. Take SSAB for instance, SSAB is structured around geographical divisions which only could mean that SSAB's domination expansion strategy is geographical expansion. In contrast, we can look at Volvo, who structured their organization after both business areas and support functions; hence, Volvo's dominating strategy could be interpreted as product diversification which resulted in this structure. The reason for also having division in terms of support function could be due to management control issues, e.g. it becomes easier to measure their efficiency and productivity. In other words, given that the firm is diversified, strategy drives structure in terms of that the firms dominating strategy helps the firm to define their divisions in their multidivisional structure.

6.2 Validity, reliability and some generalizations

Validity

In the beginning of this thesis I have described that the firms were chosen randomly without any influence from me. The only variable controlled by me was the population the firms were chosen from, which needed to be the same type of firms Chandler investigated. That is, large, diversified industrial firms. Due to the nature of the data (historical, and over time), it must be seen as validated, both since the firms must be assumed having correct information, and that they have had a long time to change potential wrong information. Due to my education (M.Sc., Stockholm School of Economics) I believe that I have had the necessary knowledge regarding the subject for

investigating it. On the other hand, this specific subject was new to me which made me lack biases in the area in terms of already made conclusions. The method for conducting the research is rather straight forward since it treats historical patterns (the expansion strategies), and the present state (the organizational structure) which both are rather easy to observe. Regarding external validity, it must be up to the reader to draw own conclusions; I can only give my perspective on it.

Reliability

Looking at reliability, I described above that I claim having enough knowledge in order to conduct this study. The experience regarding data collection made me conclude that interviews were hard to conduct which resulted in the use of written sources. I would also like to claim that the advisement from my advisor Peter Hagström has been enough in terms of guidelines regarding method, delimitations etc. and understanding of the investigation as a whole.

Generalizations

Let's first define what a generalization would mean here. The generalization would go for the initial population that I let the students randomly chose the investigated firms from. This population was the same that Chandler investigated, that is, large, diversified industrial firms. The number of investigated firms was 4 and the population they were chosen from 14. If the conclusions from the individual firms reminds of each other in a population share of 4 of a total population of 14 firms, my interpretation is that a generalization is possible. This was the case in H1 and H2, since it was concluded that the firms didn't used all of Chandlers suggested expansion strategies, and none of them used the given expansion strategies in the order Chandler suggests. Hence, these conclusions could be generalized for large industrial and diversified firms in Sweden.

Looking at H3, this is harder to generalize, since no definite answer could be given, the firms were multidivisional, but they differed too much in their definition of the divisions for being able to draw a general conclusion.

6.3 Suggestions for further research

There are two suggestions for further research I would like to make. First, further research could be based on why the geographical expansion in the investigated firms came so late. Since this was a sub conclusion that could be drawn when conducting research regarding the original problem formulation I haven't investigated why this pattern occurred further. Second, I also found that divestments between 1980 and 2000 were rather common in the investigated firms in order to refocus their core business. It would be interesting to see if this was a common pattern, since this in that case could be described as a fifth step in Chandler's suggested growth pattern. In addition, it would be interesting to see what these divestments resulted in regarding organizational structure.

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Appendixes

The students that randomly picked the firms which are investigated

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