

Model of management harmonization during organizational changes of corporation in the process of diversification

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Abstract. The article presents the author's approach to organizational changes of corporation due to the process of diversification. Organizational changes are aimed at building target organizational structure, which should meet the requirements of management harmonization under potential conflict of corporation's interests and business units combined in the process of diversification.

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Introduction

The most important current trends caused by the significant increase in the volatility of the economic environment are consolidation and integration of business, formation of diversified corporate structures. **Corporations** formed by diversification require consolidation of various economic agents. Being a single economic entity, the corporation is a consolidation of economic subsystems, which is characterized by the multiplicity of management systems and diversification of management functions in the organizational and managerial aspects, by financial independence of elements and their interests in the financial results in the economic aspect. On the one hand, diversification allows to increase the business stability, on the other hand, it can lead to loss of manageability and, as a consequence, the positive synergistic effect of diversification can develop into a negative. Accordingly, organizational changes of corporation arising from the diversification of its activities are associated with the problem of construction of elements interaction system and corporation management systems, providing balance of their economic interests. This interaction system has a critical influence on the performance of the corporation as a whole.

The purpose of this study is to develop a methodological approach to the management of organizational changes associated with the diversification providing harmonization of the corporation management processes.

This goal is achieved by the solution of the following problems:

- critically analyze the methodology of system study of organizational change management associated with the implementation of diversification;

- identify features of interaction of economic and organizational subsystems of corporation formed in the process of diversification;

- develop a model of harmonization of organizational changes of diversified corporation.

Scientific positions of the author were formed based on the study and analysis of the theoretical, methodological and practical works of Russian and foreign scientists who are recognized experts in the field of theory of diversification and management of organizational changes.

The modern theory of corporate diversification is based on resource company concept, which is reflected in the works [1], [2], [3]. Unlike portfolio approach, the resource concept links the success of diversification with organizational competencies and management resources. In the work [4] there is a concept of corporate coherence between different types of resources and corporate strategy of corporation. However, problems of coherent organizational interactions during modeling of management system of diversified corporation have high potential for further research.

Diversified corporations represent a system of several interacting elements - business units, which can be combined in the business chains. In such difficult economic systems multiple economic, organizational and management relations are formed, the study of which should be based on methodology of description of integration links and their factors of balanced interaction.

By now theory and practice of management have solved the problem of resource and orders allocation between the parts of organization, as well as between the parties of the supply chain. However, the existing management mechanisms of intra- and inter-organizational economic relations do not provide comprehensive alignment of economic

interests of the elements belonging to the corporation, and interactions resulting from its activities.

Peculiarity of corporations is the need to describe the interactions of its constituent elements at different levels of management hierarchy. Concerning diversified corporations, four levels of management can be marked out:

- level of corporation as a whole;
- level of business units;
- level of functional areas of management and
- linear level of management.

Therefore, the problem of construction and optimization of the corporation structure as a result of ongoing organizational changes requires, in our opinion, development of a new methodological approach based on the dual nature of corporate subsystems: on the one hand, managerial solutions produced by management on a particular level of control must provide system-wide target figures, on the other hand, they are taken under the influence of specific interests of the participants in the process of management.

As practice shows, most corporations have complex system of separate and independent responsibility centers with conflicting interests that poorly meets the requirements of good management. Existence of potential conflict of interests leads to the fact that criterion of managerial authority allocation is a high level of confidence, but not the effectiveness of managers.

Typical problem here is the problem of information asymmetry between the centers of responsibility and the central managerial structure, which also hinders effective management. On the one hand, corporate managers have no complete and reliable information on the performance of individual business units and business processes. On the other hand, there is a shortage of managers at various levels capable of teamwork focused on strategic goals of long-term sustainable development. In such circumstances the process of justification the key problems and identification of priority actions for the management of organizational changes needed to transform a group of diversified business units in effective corporation becomes complicated.

In the present context, in addition to the traditional tasks of management of organizational development, it is necessary to solve the problems of harmonization of participants' interests for an effective transition to the target structure. Only complex approach aimed at coherent interaction of all elements and levels of corporation management allows carrying out the managerial process of organizational change effectively.

Existing models and methods of interaction harmonization are limited to specific cases of intra- and interfirm interactions, however, their application for mechanisms formation to manage business units that are part of the corporation appears to be insufficient and actualizes the problems of developing appropriate methodical managerial tool with the following peculiarities of these interactions:

- presence of key decision-making center - the central management structure of corporation, that creates the need for a formalized methodological apparatus, which ensures harmonization of managerial decisions;
- differentiated nature of interactions involving all elements (business units and integrated business chains) and levels of corporation management requires the formation of *multi-dimensional models* of managerial decision harmonization;
- open nature of corporation, which reflects its ability to expand by inclusion of new elements, causes the requirement of *invariance* of *models* of interaction harmonization to the composition and structure of system elements;
- multiplicity of hierarchical managerial systems in corporation determining the existence of contradictions between the interests and goals of individual elements of corporation, interacting with each other, and between the interests and goals of individual elements of corporation and corporation as a whole, identifies the need for a *complex harmonization* of all possible directions of interactions in corporation.

Managerial problem solved at the highest level of corporation management is the formation of mechanisms and tools for collaborative management of changes. Ongoing changes should be agreed on the elements and levels of management. Moreover, an important condition for organizational changes is to ensure coherent interactions in corporation.

The corresponding system of managerial influence should ensure the alignment of interests and actions of diversified business units that make up corporation. Concepts of alignment of interests and alignment of actions were introduced in 2005 in the work [5].

Interests of economic entities have an objective character - they are formed due to the necessity to meet existing and emerging needs of these entities in the most rational way. Objectivity of interests means that they are determined by the functioning of the economic agents, their place in the economic systems of higher level.

In the context of the multiplicity of economic entities within diversified corporation, an unbalanced system of multidirectional economic

interests develops, which is characterized by contradiction between the interests of business units operating within corporation and their external partners. This necessitates the alignment of interests on the part of corporation management.

Need for alignment of actions of diversified business units that are part of corporation is caused by the fact that their functioning can have a greater or lesser degree of mutual dependence, i.e. management decisions and actions of one of business units can influence the decisions and actions of other business units.

Concerning the interaction of business units in an interorganizational environment, three types of interdependencies were marked out: aggregate (horizontal), consistent (vertical) and mutual (symbiotic) [6]. To manage different types of interdependencies of business - units and ensure the alignment of their interests and activities in later works, appropriate mechanisms were suggested: provision of managerial flexibility under conditions of consistent (vertical) relations, standardization of business processes under conditions of aggregate (horizontal) relations and mutual settlement of interests and actions with mutual (symbiotic) relations [7].

With regard to corporate structures in the work [8], the following main types of interaction of their elements are marked out:

- horizontal internal alignment of interests is the organization of horizontal internal interactions aimed at maximizing the efficiency of organizations that are integrated into corporation;

- vertical internal alignment of interests is the organization of vertical internal interactions aimed at maximizing the efficiency of both corporate center and organizations that are integrated into corporation;

- horizontal internal alignment of interests of organizations is management of horizontal interactions of organizations aimed at maximizing the efficiency of firms belonging to different corporations.

In case of horizontal internal alignment of interests, the volume of internal financing and turnover become the managerial parameters. In case of vertical internal alignment, flows of redistributed financial resources are its subject. Horizontal internal alignment is aimed at harmonization of profits of interacting corporations.

Thus, for the management of corporation and its organizational changes it is necessary to develop a mechanism of alignment, which takes into account the degree of integration of business units in corporation and principal approaches to its formation and management.

Level of managerial integration in corporation largely depends on what method is used to manage the activities of business units. Experts in the field of controlling and budgeting mark out three principal methods of control: directive, managerial and investment [9].

In corporations, that provide directive control, almost all control functions are concentrated on the highest level of management, central managerial structure of corporations actively intervene in the operations of business - units. Accordingly, the alignment of interests and actions is fully implemented by central managerial structure.

In case of managerial method of control at highest level of management, tasks are defined and decisions are made under which business units will operate. Central managerial structure forms the potential of business units' interaction, defining alignment parameters of their interests and actions and implementing their coordination at the strategic level.

Investment control method is used by corporations, based on the principles of portfolio management. At the highest level of management goals for business units are formed, these goals are primarily financial. Accordingly, the definition of parameters of business units' actions that achieve their goals is their own prerogative. In this case, the alignment of interests and actions is actually carried out in an open market and diversified corporation structure is as close as possible to the structure of enterprise network.

Table 1. Parameters of control of business units' actions by central managerial structure of corporation

Control parameters	Control method		
	Directive	Managerial	Investment
Control conditions	Amount of liability and/or property rights of central corporate structure in business units, providing full control over their actions.	Significant amount of liability and/or property rights of central corporate structure in business units.	Insignificant amount of liability and/or property rights of central corporate structure in business units.
Nature of managerial control	The ability to appoint managers in all functional areas and levels of management of business units. Full control of decision-making process by managers of business units.	The ability to appoint key managers of business units. The ability to influence decision-making at the level of business units.	The absence of ability to appoint key managers of business units. The absence of effective levers of influence on decision-making at the level of business units.
Control tools	Adoption of budget system, monitoring of its implementation and realization of corrective managerial actions.	Formation of key activity indicators. Control of key functional areas of management of business units.	Formation of scenarios business environment

Selection of method to control the actions of business units depends on the nature of integration relations of business units and business chains belonging to corporation.

Corporations can represent classic holding companies arrayed in a pyramid and distributed

holding companies based on the principles of collaboration. While in classical holding companies integration relations are formed by relations of power and subordination according to levels of managerial hierarchy, in distributed holding companies integration relations are formed by mutual coordination among participants.

Accordingly, we define the types of integration relations in corporation as following: integration relations of subordination and integration relations of coordination. While the basis of integration relations of subordination is regulation and standardization of managerial processes, the basis of integration relations of coordination is managerial freedom. Thus, we can conclude that the level of managerial integration in corporation is defined by the nature of integration relations.

Marked parameters of business units' control methods by central managerial structure of corporations allow drawing conclusions of possibility and reasonability of directive control method in the formation of integration relations of subordination that are typical of classical holding companies. Managerial method of control also seems to be acceptable.

The problem of modeling coherent management of organizational changes is to describe and formulate the conditions for balance of interests under different parameters of managerial processes and functional interactions across all hierarchical levels of corporation management.

Combination of business units in business chains forms a complex system of material, financial and information flows, necessitating the formation of mechanisms of their harmonization. Harmonization of flows generated through the implementation of business processes in corporations, is possible only in case of interpenetration of business units' functions combined in business chains, that, in turn, causes the need to develop specific models of management of multi-level complex structured objects and requires research of methods of interaction organization of corporation elements.

Composition and structure of corporation determine its control system - levels and functional areas of management, their respective divisions, direction of their subordination and relations, principles of separation of power and responsibilities.

Taking into consideration the types of interaction between elements and levels of corporation management, we distinguish between two ways of alignment of interests and actions: horizontal and vertical. Based on the approaches to the organization of intra- and interfirm interaction, we represent the content of the selected ways (Table 2).

Table 2. Ways of harmonized management in integrated economic system

Types of harmonization	Direction of harmonization	
	Horizontal harmonization	Vertical harmonization
Alignment of interests	Added value allocation	Distribution of profits and investment volume
Alignment of actions	Joint information usage, synchronization of logistic processes	Definition of collaboration rules, formation of quality requirements, optimization of transaction costs

Alignment of interests solves the problem of motivation at all levels of management and corporate elements and is aimed at developing appropriate incentives for cooperation and mechanisms of distribution of the corresponding profits. Mechanism of distribution of profits will be recognized valid by stakeholders under the condition that the final financial result of this activity provides the best balance of risk and profitability.

The need for alignment of actions of management levels and elements of corporation is caused by the fact that the efficiency of its operation is determined by not only actually established, but potentially existing relations between business units. Lack of transparency of decision-making rules and absence of vision of the existing interdependencies of managers at managerial and technical levels, which is typical of complex systems, without coherent relations lead to inability to fully realize their emergence.

Horizontal alignment of actions is aimed at reducing the uncertainty of conditions of business units' functioning by rising of awareness and reliability of partnership.

The problem of vertical alignment of actions is to eliminate the structural weaknesses of corporation. Important structural disadvantage of corporation, due to diversification, is the presence of unproductive internal competition. In order that such competition does not have negative impact on the performance of corporation, clear division of tasks between the system elements requires.

These methods of management harmonization during organizational changes of corporation, caused by the process of diversification, need to be specified taking into account identified conditions and factors of management harmonization.

The presented model of management harmonization is the basis of formation of target organizational structure and management of corporation, which, in turn, determines the direction of organizational changes caused by diversification.

Table 3. Methods of harmonization during organizational changes in corporation

		Degree of business process integration		
		Business units in corporation function apart	Business units in corporation are combined into separate business chains	Business units in corporation are combined into integrated business chains
Methods of control the activities of business units by central managerial structure	Directive	Vertical alignment of interests and actions	Vertical alignment of interests and actions; horizontal alignment of interests and actions in accordance with the established parameters	Vertical alignment of interests and actions; horizontal alignment of interests and actions in accordance with the established budget parameters
	Managerial	Vertical alignment of interests and actions	Vertical alignment of interests and actions; horizontal alignment of interests and actions in accordance with the established key indicators	Vertical alignment of interests and actions; horizontal alignment of interests and actions in accordance with the established key indicators
		Degree of business process integration		
		Business units in corporation function apart	Business units in corporation are combined into separate business chains	Business units in corporation are combined into integrated business chains
		Vertical alignment of interests	Vertical alignment of interests; Vertical alignment of actions; horizontal alignment of interests and actions of business units within business chains	Vertical alignment of interests and actions; horizontal alignment of interests and actions of business units
	Investment	Definition of the general principles of vertical alignment of interests	Definition of the general principles of vertical alignment of interests; horizontal alignment of interests and actions of business units within business chains	Definition of the general principles of vertical alignment of interests; horizontal alignment of interests and actions of business units

In corporation, based on the integration relations of subordination, not all levels of management and elements participate in the development of strategy for corporation development. Based on the pyramid and hierarchical principle of formation of classical holding companies, this strategy is developed by central managerial structure. Other levels of management are involved only in the implementation of strategy. Accordingly, the development strategy of such corporations is collective, covering all aspects of interactions within the corporation, but not in terms of development. Using the methods of control – directive or managerial – central managerial structure ensures that the activities of business - units are implemented within the established strategy.

Integration relations of coordination are based on combination of centralized management of finance, innovation and investment with independent business units [10]. Strategies of corporate

development has a collective nature, not only according to direction but also according to the order of development - the process of developing a collective strategy is implemented not only at the corporate level, but also at the level of business units. At this level the parameters of horizontal cooperation of business units and business chains are determined.

Introduced methodological approach can improve the quality of forming corporation's organizational structure in the process of diversification providing coherent and focused functioning of all elements and levels of management under potential conflict of interests.

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