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Jose I. Galan and Maria J. Sanchez-Bueno

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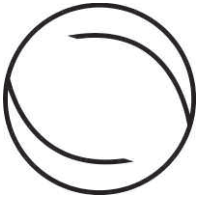
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# Strategy and Structure in Context: Universalism versus Institutional Effects

Jose I. Galan and Maria J. Sanchez-Bueno

## Abstract

*Jose I. Galan*  
Salamanca University,  
Spain

*Maria J.  
Sanchez-Bueno*  
Salamanca University,  
Spain

This study analyses the evolution in large firms' strategy and structure in a new spatial and temporal context (Spain 1993–2003). The central question of this work is to determine whether transformations undergone in this country have led Spanish companies' strategies and structures to converge with those of other European countries, following the predictions of 'universalistic' theories of strategy and organization; or whether cultural/institutional effects have remained strong, following a path-dependence/cultural-lag type logic. The Spanish experience is particularly significant for theory in general because its late development and very distinctive institutional origins allow us to test theories applied before in a new country and more recent time period. Our findings show that a changing context (e.g. liberalization) has led Spanish firms to converge with those of other European economies in the pattern of strategy and structure (increasing levels of diversification and divisionalization). Thus, the findings of this study in a new context are consistent with universalistic predictions that strategies and structures will evolve towards a common model of corporate development, as Chandler postulated initially.

**Keywords:** corporate strategy, organizational structure, universalism, context

## Introduction

The literature on strategy and structure has its genesis in the research agenda of Harvard (Rumelt 1974; Scott 1973), whose work set out to systematize and update Chandler's (1962) pioneering account of the corporate development of large US companies. Thus, the international spirit of the Harvard Program led to the analysis of strategic and structural change not only in the United States, but also in the rest of the advanced industrial world (Channon 1973; Dyas and Thanheiser 1976; Pavan 1976).

The main conclusion of this pioneering project was that the diversified corporation with a multidivisional structure had become the pinnacle of a universal model of corporate evolution for all advanced economies. However, nowadays doubts have emerged about the universality and continuing validity of Chandler's original model. Recent studies have argued that place and time are important (Kogut 1992; Teece 1993).

In particular, frameworks offered in the business systems literature (Whitley 1991, 1992, 1994, 1999) and other relevant bodies of theory (Djelic 1998; Hall and

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Soskice 2001; Khanna and Palepu 1997, 2000b) have emphasized the context. National differences in terms of business practices could influence how firms develop with respect to strategy and structure.

Spain is a particularly good test of the universalist Chandlerian thesis because, very unusually, it became a large, developed, liberal and open capitalist economy — more or less comparable to France, Germany, Italy and the United Kingdom — only late in the 20th century. As a late developer, its corporations faced the strategic and structural choices that other European corporations had mostly already made at a time when both traditional diversification (e.g. Markides 1995) and divisionalization (e.g. Hedlund 1986; Teece 1993) were under theoretical challenge in the literature and were possibly retreating in the United States and elsewhere. Thus, Spain's late development and very distinctive institutional origins make it a particularly good natural experiment to test theories that have been applied before in a new country and more recent time period.

Taking all these ideas into account, the objective of this study is to analyse the evolution of corporate strategy and organizational structure in a new territory and in a recent time period (in Spain, from 1993 to 2003), in an attempt to shed light on the aforementioned debate about whether large corporations' pattern of growth through their strategies and structures is generalizable or not across countries, and whether it endures over time. Specifically, the central question that we try to answer is whether transformations undergone in this country (liberalization, etc.) have led Spanish companies' strategies and structures to converge with those of other European countries, following the predictions of 'universalistic' theories of strategy and organization, or whether cultural/institutional influences have remained strong, following a path-dependence/cultural-lag type logic.

For this purpose, we present a theoretical framework that specifies the arguments of the two aforementioned perspectives. On the one hand, we examine the arguments defending the universalistic logic in the strategic and organizational patterns, which would lead these patterns to converge between countries. And on the other, we look at the arguments for the contextuality or specificity of these strategic and organizational patterns as a result of each country's historic or institutional factors.

The value added and implications of the current work can be summarized as follows. Theoretically, we contribute to the recent debate between the universalistic perspective of corporate development and new contextual ideas that challenge this tradition. Empirically, we provide new evidence on strategy and structure within a specific and different country (Binda 2005; Binda and Iversen 2007; Carreras and Tafunell 1997; Guillen 2005), and in a recent time interval that includes the start of the 21st century (1993–2003). There is a need to complement the early works on strategic and organizational evolution with later studies from different contexts, in order to determine the differences in the business system and economic institutions and how they can influence entrepreneurial and managerial behaviour.

The findings of this study show that the predictions of 'universalistic' theories of strategy and organization postulated by Chandler (1962), confirmed by the pioneering Harvard studies (Channon 1973; Dyas and Thanheiser 1976; Pavan 1976), and recently supported in Europe (Mayer and Whittington 1999; Whittington et al. 1999; Whittington and Mayer 2000), remain valid in this new setting and time.

## Theoretical Framework

The pioneering work of Chandler (1962) postulated the existence of a universal model of corporate development for all industrialized countries. This model emphasized the tendency towards the diversification strategy and multidivisional structure. Later, a generation of scholars was engaged in the Harvard Program to continue this research. Thus, in the United States, Rumelt (1974, 1982) showed that large industrial companies had adopted diversification and divisionalization, and other studies on strategic and structural change among American enterprises have also corroborated this evolution (Chandler 1978, 1990, 1992). Outside the United States, some researchers analysed the proportion of large firms with diversification strategies and multidivisional structures in several European countries, such as the United Kingdom (Channon 1973), France and Germany (Dyas and Thanheiser 1976), and Italy (Pavan 1976). These studies produced similar findings to the US research: an increase in the number of diversified and divisionalized firms.

However, the latest works on strategy and structure show different results on each continent. While in the 1980s in the United States a period of restructuring and divestiture began (Bhagat et al. 1990; Davis et al. 1994; Markides 1995), diversification and the multidivisional structure became increasingly prevalent in Europe in the 1980s and 1990s (Mayer and Whittington 1999; Whittington et al. 1999; Whittington and Mayer 2000). These results in the United Kingdom, France and Germany are consistent with Chandler's logic for a new time interval (see Table 1).

The Harvard Program offers a major and robust contribution to the research on the strategy and structure of large firms over several decades in the United States and western Europe. Nevertheless, compared to this universalistic stream, which postulates a convergence of the strategies and structures, new theoretical streams have emerged recently (Hall and Soskice 2001; Khanna and Palepu 2000a, 2000b; Whitley 1994). These approaches postulate a more contextual growth pattern tending to divergence of the strategies and structures between countries. In this sense, the literature on business systems and on varieties of capitalism (Hall and Soskice 2001; Whitley 1991, 1994), for example, has noted that differences between countries influence strategy and structure.

In considering the business system perspective, Whitley (1994: 166), for example, stresses the potency of natural institutional configurations in explaining variations in corporate strategies and organizational structures: 'in economies where firms depend greatly on the state for investment co-ordination and access to credit, it is quite likely that decision-making and co-ordination within firms will be highly centralized'. Likewise, in considering the varieties of capitalism perspective, Hall and Soskice (2001) indicate that the characteristics of the external institutional environment in the so-called liberal market economies (e.g. the United States) promote the adoption of a structure that concentrates authority in top management, whereas in the so-called coordinated market economies (e.g. Germany) the structure of the firms emphasizes a more consensual form of decision making.

There is also a long tradition on the implications for strategy and structure of comparative economic institutions. According to works by Khanna and Palepu

Table 1.  
Strategic and  
Organizational  
Evolution in the  
USA and Europe

Study	Period	Context	Strategy evolution	Structure evolution
Chandler (1962)	1909–1959	USA	Evolution towards diversification strategy in post-war period.	Adoption of multidivisional form in 1920s in four pioneering firms. General trends towards multidivisional form in 1940s and 1950s.
Rumelt (1974, 1982)	1949–1974	USA	Increase in related diversification strategy and decline in single business. Important increase in unrelated diversification in 1960s.	Increase in multidivisional form and decline in functional and holding structures.
Markides (1995)	1981–1987	USA	Notable decline in conglomerate and related diversification. Single business is most frequently adopted category.	Change from multidivisional to centralized multidivisional form.
Channon (1973)	1950–1970	UK	1950: leadership of single and dominant business, related diversification is scarce and conglomerate is non-existent. 1960–1970: dominance of related diversification, decline in single business, and little importance of conglomerate.	1950: dominance of functional and holding forms, and multidivisional form is not very important. 1960–70: decline in holdings and leadership of multidivisional form.
Dyas and Thanheiser (1976)	1950–1970	Germany	1950–1960: important decline in single business. 1960: success of related diversification. 1960–1970: increase in conglomerate and decline in dominant business.	1950: Multidivisional form is unknown. 1970: Multidivisional form is dominant organizational structure.
Dyas and Thanheiser (1976)	1950–1970	France	1950–1960: increase in related diversification. 1960–1970: leadership of related diversification and relevance of conglomerate. 1950–1970: decline in single business and steady increase in dominant business.	Companies move to multidivisional form, starting in 1960. Decline in functional and functional-holding forms.
Whittington and Mayer (2000)	1983–1993	UK	Diversification is leading strategy, and is stable.	Absolute leadership of multidivisional form, and functional and functional-holding forms are unimportant.
Whittington and Mayer (2000)	1983–1993	Germany	Steady decline in undiversified categories. Leadership of related diversification and anomalous importance of conglomerate.	Dominance of multidivisional form, and functional form has almost disappeared. Survival of holding and functional-holding forms.

(Continued)

Table 1. (Continued)

Study	Period	Context	Strategy evolution	Structure evolution
Whittington and Mayer (2000)	1983–1993	France	Leadership of diversification, but single business is also important.	Notable success of multidivisional form and drastic decline of functional form. Functional-holding and holding forms do not disappear.
Galan and Suarez (1997)	1982–1992	Spain	Low level of diversification.	Low level of divisionalization, many companies have a centralized functional structure.
Binda (2004, 2005)	1983–1993	Spain	Low level of diversification.	Low level of divisionalization, many companies have a centralized functional structure.
Binda and Iversen (2007)	1993–2003	Spain	Loss of importance of single business strategy and inclination to related business.	

(1997, 2000a), companies must adapt their strategies to fit their institutional context. Institutional environments characterized by different levels of institutional development present varying degrees of market imperfections that have a bearing on the various levels of business diversification aimed at offsetting these market inefficiencies. The argument in this literature is that a diversification strategy in emerging markets has many advantages because diversified groups can act as an intermediary between individual entrepreneurs and imperfect markets (emerging economies are characterized by greater imperfections in the markets for capital, products and managerial talent). In contrast, in advanced economies, such as the United States, which is characterized by well-functioning capital, labour and product markets, a diversification strategy may be inappropriate. These markets are better at allocating resources, and diversification strategies are not therefore required.

In sum, while some scholars confirm the ‘universalistic’ theoretical perspectives, others challenge the generalization of the strategy–structure evolution. In this setting, our aim is to analyse whether the Harvard Program is still valid in a new context (Spain) that has experienced fundamental changes since the 1970s. In the following section, we set the context by describing the main transformations experienced in Spain in recent years.

### The Spanish Context: Historical Perspective and National Institutions

Various authors from different fields have stressed the peculiarity of the Spanish case and the impact of the context on entrepreneurial choices. Aguilera (1998), for example, focused on the impact of sociological and institutional factors on the network

of inter-corporate relationships in the largest Spanish corporations in 1993. Binda (2004, 2005) and Binda and Iversen (2007), following in Whittington and Mayer's (2000) footsteps, analysed strategies, structures and ownership in major manufacturing corporations in Spain in 1973, 1983, 1993 and 2003. Carreras and Tafunell (1994, 1997) authored various works on the differences between large Spanish enterprises and the 'model' of the large American corporation during the 20th century. Galan et al. (2005) examined the strategic and organizational evolution of several large Spanish firms, and found evidence of new organizational structures whose characteristics coexist with features of old ones. Guillen (2001, 2005) underlined the particular organizational patterns of Spanish enterprises in comparison with other latecomer countries and studied the impact of the internationalization strategy on some of the major firms in the country.

This section offers a characterization of the Spanish context with the objective of formulating specific expectations about the spread of strategies and structures in Spain. Issues such as institutions and economic policies, the legal framework, the role of the state or the banks, corporate governance systems, or the internationalization strategy have an important impact on entrepreneurial choices (Aguilera 1998; Crespí-Cladera and García-Cestona 2003; Guillen 2001, 2005).

During the Francoist period (1939–1975) Spain experienced autarchy and public interventionism, which led to, among other things, a late industrialization process. The state played a highly interventionist role, creating, for example, a state holding company (INI, National Institute of Industry) and historic monopolies (Renfe, Tabacalera, Telefonica, etc.). Thus, the dictatorship interrupted the growth of private firms observed in other countries such as France, Germany, the United Kingdom and the United States (Binda 2005). Private Spanish firms had to focus on political rather than economic objectives, operate in a small and protected internal market and withstand the competition of strong public enterprises (Binda 2005; Carreras and Tafunell 1994, 1997). Along with the fundamental role of the state (Binda 2004, Carreras and Tafunell 1994, 1997; Crespí-Cladera and García-Cestona 2003), the banks also dominated the economy in Spain. In the Francoist regime, the Spanish banking system was an oligopoly, and the status quo Banking Law prohibited the creation of new banks from 1936 to 1963, so Spanish banks did not face foreign competition (Aguilera 1998; Carreras and Tafunell 1994).

Likewise, during these decades of dictatorship, Spain had limited technological capability, foreign capital penetration was restricted and firms had problems obtaining financial resources. The state controlled the banks and forced them to allocate a proportion of their deposits for loans to firms receiving preferential treatment — the so-called compulsory investment coefficient, *coeficiente de inversión obligatorio* (Aguilera 1998; Binda 2005; Guillen 2001).

During the period of transition to democracy, the situation began to change in Spain. A privatization process began at the beginning of the 1980s, and the domestic market opened up when Spain joined the EEC in 1986. Firms could then obtain financial resources more easily, since the compulsory investment coefficient was abolished and foreign banks became accessible. Likewise, the Spanish banking system experienced a profound transformation, going from a regulated oligopoly to a liberalized situation (Canals 1997; Vives 1991), and the Spanish Stock Exchange developed considerably and offered new financial opportunities (Binda 2005;

Crespí-Cladera and García-Cestona 2003). Also, during the process of European integration, the state lost its central position and, as a consequence, its influence on the strategic choices of firms (Binda and Iversen 2007; Clifton et al. 2003). Moreover, Spain's membership of the EU gave its companies an increasing role as foreign investors in manufacturing and marketing. Some Spanish firms have proved able to compete in the European and global markets and have moved to a situation of economic integration (Aguilera 1998; Guillen 2001, 2005). Nevertheless, despite these positive changes, at the beginning of the 1990s the negative and destabilizing effects of the transition period were still evident. These included the existence of firms in crisis, high interest rates, competition from foreign firms that was previously non-existent, and a dependence on foreign technology (Binda 2004, 2005; Guillen 2001). The general framework was one of low growth and a relatively closed economy.

These political and economic events have affected the evolution of strategy and structure in Spanish companies. Francoism had negative implications for the adoption of the multidivisional form and diversification strategy in Spain. As a result, by 1970, Spanish firms had still not attained the level of diversification that US or German firms registered back in 1950, and by the early 1980s very few large firms had adopted the divisional structure (Carreras and Tafunell 1994, 1997; Guillen 1994; Tortella 1994, 2003). Similarly, the recession Spain suffered at the beginning of the 1990s, a consequence of the negative effects of the transition period, meant that Spanish firms had not yet reached the level of growth and development necessary to adopt diversified strategies and more decentralized structures like the multidivisional form. The general model of Spanish corporate development in the 1980s and early 1990s was a low level of diversification and divisionalization, and many companies had a centralized functional structure (Binda 2004, 2005; Galan and Suarez 1997).

A process of recovery began in 1995, the economy steadily improved, and it experienced notable growth until recently. Since 1996 the Spanish economy has consistently outgrown those of the EU 25. Specifically, during the 1996–2000 period, the Spanish economy grew at an above-average rate: 4.1%, compared to only 2.9% in the euro zone. Between 2001 and 2004, when the EU was in a crisis period, the Spanish economy again grew faster than average: 3.1%, compared to only 1.7% in the EU 25 (see Eurostat, <http://epp.eurostat.ec.europa.eu>).

Likewise, from 1993 to 2003, Spain experienced important waves of privatizations and liberalizations (an important example being the break-up, by Royal Decree-Law 5/1995 of 16 June, of INI), which led to a substantial change in the economy: a decline in the importance of state and bank ownership and an increase in Spanish firms' overseas investments (Binda and Iversen 2007). In particular, Spanish companies made major investments in the EU and Latin America (Galan et al. 2007; Guillen 2001, 2005). Furthermore, and regarding Spanish companies' expansion overseas, the volume of Spanish exports surged from US \$61.1 billion in 1993 to more than US \$125 billion in 2003.

Thus, in recent decades there have been fundamental changes in the Spanish context. Spain has evolved considerably, moving from autarchy to democracy and integration into the EU (Binda and Iversen 2007; Carreras and Tafunell 1994, 1997; Guillen 1994, 2001; Tortella 2003). Consequently, from 1993 to



2003, we would expect that as Spain had joined the ranks of front-line nations, with a strong international expansion and a liberalization of the economy, Spanish companies would likewise increase their levels of diversification and divisionalization, in line with trends observed in previous decades in other European countries (Whittington et al. 1999; Whittington and Mayer 2000).

Thus, Spain is particularly significant for general theory. As has been shown above, its institutional origins meant it developed later than other European countries. Consequently, Spanish firms began to adopt diversification and divisionalization after these countries and in a period in which the universalism and permanence of Chandler's initial postulates were being questioned. All this makes the Spanish case of general importance in this question, since it allows us to examine whether Chandler's thesis about the existence of a common model of corporate development still works in a new country and in a more recent time period.

## Research Method

### Sample

The initial population consisted of the 847 largest Spanish corporations in terms of turnover, as listed annually (in this case, in 2004) by *Actualidad Economica*. However, following the criteria employed in previous studies, we excluded foreign firms (a firm is domestic if its home base is in Spain), public companies, and corporations belonging to sectors such as agriculture and mining. As opposed to other previous studies, which only consider the manufacturing sector (Binda 2005; Carreras and Tafunell 1994; Chandler 1962), we included the services sector, which in the Spanish case is the largest in terms of GDP — at both the beginning and end of the 1990s, services accounted for approximately 50% of the GDP, in contrast to the manufacturing sector, which accounted for around 20% (INE 2002, 2006). Likewise, in Spain the services sector has been the fastest growing in recent years.

There were 551 corporations that satisfied these criteria. A questionnaire was sent to these 551 corporations, and after considerable insistence 100 valid responses were returned. The sample under investigation therefore consisted of 100 of the largest Spanish corporations in terms of turnover.

### Timeframe Analysed

As in the Harvard studies, the timeframe selected covered 10 years, but the period is more recent here (1993–2003). The choice of this time interval was based on the following reasons: we wished to provide new empirical evidence on the issues of interest in a time interval that had hitherto received little attention in strategy and organization literature. There is no evidence about what has happened in recent years, because the most recent studies end their analysis in 1993 (Binda 2005; Mayer and Whittington 2003, 2004; Whittington and Mayer 2000). Furthermore, this period was a decade of important environmental transformations in Spain. For example, by 1993, and following international pressure for financial deregulation, Spain partially abandoned its practices of state interventionism in credit allocation

(Aguilera 1998). Also, in 1993 the European Single Act came into law (Guillen 2005). These transformations, as mentioned in the theoretical section, may have an impact on the evolution of corporate strategies and structures.

### **Data Collection**

The data were collected from a questionnaire specifically designed for this research and sent to the CEOs of the corporations. This method has been used in other studies on strategy and structure (e.g. Hill 1988; Markides 1995). We initially carried out a pilot test with various firms, in which we also held various semi-structured interviews. This process led to an improvement in its content, design, wording and understanding, thus making the completion of the questionnaire easier and more attractive. After the results of the pilot test, we sent the definitive questionnaire by post to the 551 Spanish companies selected. We subsequently telephoned those firms that had not yet offered to take part. After this second contact, the questionnaire was sent out again to willing firms by post, email or fax, according to their instructions.

The questionnaire was built up on the basis of previous literature. Thus, the strategy categories were based on the classification scheme developed by Rumelt (1974) and also used by other recent studies of this topic (e.g. Whittington and Mayer 2000): single business, dominant business and diversification. Likewise, to determine the nature of diversification (related and unrelated diversification), we included several questions about the existence of market or technological relationships between businesses, in line with Rumelt's (1974) categories. As with strategy, we followed the Harvard works in defining organizational structure (Channon 1973; Dyas and Thanheiser 1976; Whittington and Mayer 2000): functional, functional-holding, holding and multidivisional. Structure classification was guided by key aspects of several prior studies (Hill and Pickering 1986; Hill et al. 1992; Hoskisson et al. 1993; Markides 1995): (1) decentralization in the decision-making process; (2) integration among divisions; (3) divisional control systems: strategic criteria (capacity for innovation, cooperation between divisions) and quantitative criteria (profit, sales, market share); and (4) type of incentive systems: incentive systems based on corporate performance or on divisional performance. To collect this information, and in line with earlier work (Markides 1995), we used Likert scales. The data for both structure classification and diversification classification were collected from the questionnaire. Both for strategy and structure we collected information for 1993 and 2003. Data for both time points (1993 and 2003) were collected with the same survey.

The information provided by the CEOs of the corporations was complemented by published data (annual reports, reports in the press, etc.), in line with the Harvard Program research. We used this published data only in seven cases in which certain questions were not answered, as in the rest of the companies the survey could be confirmed by externally available data.

### **Measurements**

Four basic strategy categories were used, as proposed by the Harvard researchers (Rumelt 1974: 11): (1) single business: firms with a 'specialization ratio' between

Table 2.  
Diversification  
Trends for Spanish  
Corporations (%)

Corporate strategy	1993	2003	Variation
Single business	44	29	-15
Dominant business	44	44	0
Related business	7	21	14
Unrelated business	5	6	1
Total	100	100	

0.95 and 1.0 (specialization ratio is defined as the proportion of a firm's revenues attributable to its largest discrete product-market activity); (2) dominant business: firms with a 'specialization ratio' between 0.7 and 0.95 — such firms have diversified to a small degree but are still quite dependent upon and characterized by their major product-market activity; (3) related business: firms with a 'specialization ratio' below 0.7 that have diversified by adding new activities that are tangibly related to the collective skills and strengths possessed originally by the firm; and (4) unrelated business: firms with a 'specialization ratio' below 0.7 that have diversified into areas that are not related to the original skills and strengths of the firm.

Regarding the classification of the organizational structure, we distinguished four categories based on the Harvard Program: (1) functional: tasks are organized along the lines of operating functions such as sales, marketing or manufacturing; (2) functional-holding: like the functional structure, but adding a periphery of subsidiaries or partly owned ventures; (3) holding: subsidiaries are very stand-alone, and the relationships between headquarters and operating units are limited; and (4) multidivisional: each operating division has the responsibility and resources necessary to engineer, produce and market a product or set of products.

## Results

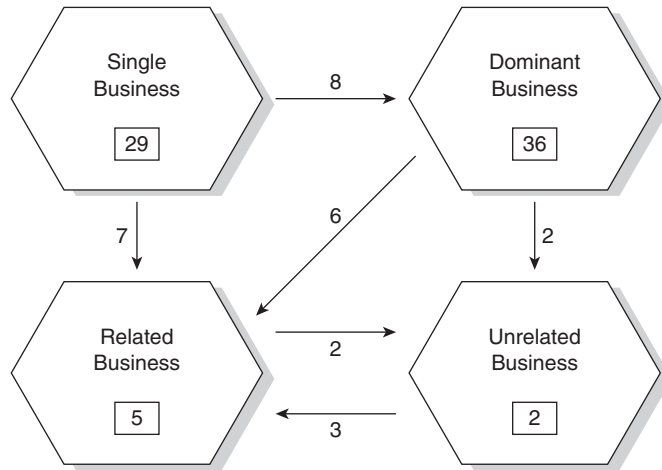
### Evolution of Corporate Strategy of Large Spanish Companies

Our results show that in 1993 the most frequently adopted strategies in large Spanish corporations were single business and dominant business (these categories account for 88%), whereas only 12% of firms were classified into the related or unrelated categories. Furthermore, the unrelated business category was the least common in the Spanish context (see Table 2).

Figure 1 presents a more detailed analysis of the pattern of strategic change in Spain during the 1993–2003 period. The figures within each strategy box indicate the number of firms remaining within the same strategy category over the whole period. The arrows show the numbers moving from one strategy category to another.

Overall, a clear trend is observed towards the related business category in the strategies of 100 of the largest corporations in Spain. During this 10-year period, seven firms moved from single business to related business, six from dominant business to related business, and three from the unrelated to the related category. Only four firms (two from dominant business, and two from the related category) moved into unrelated fields of activity. Despite this increase in the number of firms following the related business strategy, the most important strategy category in Spain in

Figure 1.  
Strategic Evolution in  
Spain (1993–2003)



2003 was dominant business (44% of firms). The single business category underwent a pronounced decline (from 44% in 1993 to 29% in 2003).

In general, corporate strategies remained very stable, with only 28% of Spanish companies initiating a strategic change during the 1993–2003 period. The aggregate trend of change was towards increased diversification. The most frequent shifts were from single business to dominant business, and from single business to the related category.

Finally, it is worth noting that, given the retrospective nature of the survey, it may partly be registering a higher than random proportion of growing companies (by definition, the survey will not include firms that failed in that period). This may slightly inflate the trend towards diversification.

### Evolution of Organizational Structure of Large Spanish Companies

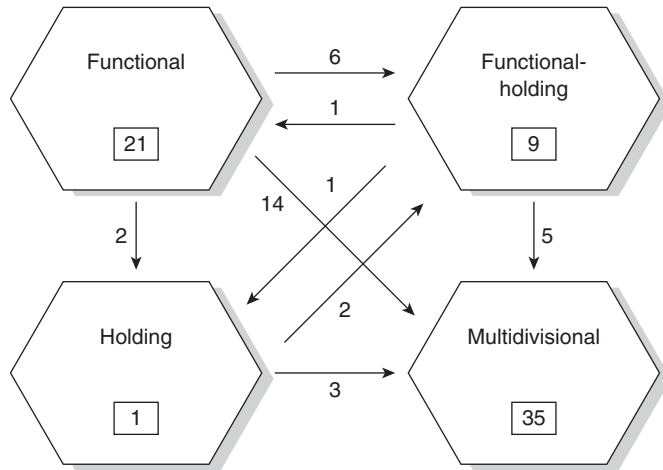
Table 3 reveals that, by 1993, most large Spanish corporations had a functional structure. The multidivisional was more popular than the functional-holding and holding structures.

Between 1993 and 2003, the multidivisional structure experienced a period of steady growth in Spain (from 35% to 57% of firms), while the functional form dramatically declined (from 43% to 22%). Analysis of the transition also reveals a decline in the holding form, a structure that Spanish corporations did not find very attractive in either 1993 or 2003. The functional-holding form grew slightly.

Table 3.  
Divisionalization  
Trends for Spanish  
Corporations (%)

Organizational structure	1993	2003	Variation
Functional	43	22	-21
Functional-holding	16	17	1
Holding	6	4	-2
Multidivisional	35	57	22
Total	100	100	

Figure 2.  
Organizational  
Evolution in Spain  
(1993–2003)



In short, by 1993, the functional form was the most important category in Spain, but by 2003 the situation had changed: by that time, 57% of Spanish businesses had chosen the multidivisional form.

Overall, large Spanish corporations preferred to maintain their organizational forms rather than restructure. Only 34% of the sample carried out an organizational change during the 1993–2003 period. In those cases, the dominant transition was towards the multidivisional structure. The results show that this structure was the most stable form of organization among 100 of the largest Spanish firms, and that no company with a multidivisional form in 1993 had abandoned this structure by 2003 (see Figure 2).

### The Spanish Context and Firm Organization and Strategy

As mentioned in the theoretical section, recent bodies of theory consider that Chandler's pioneering work does not consider the context factor, regarded as highly important in firms' choice of strategy and organizational structure. Thus, in this section, we provide a picture of the idiosyncrasies of the Spanish context in terms of sector, ownership structure and firm size, and the impact of these three factors on the strategic and organizational evolution.

The corporations that Chandler (1962) and the first generation of researchers in strategy and structure (Channon 1973; Dyas and Thanheiser 1976; Rumelt 1974) analysed were large industrial firms that emerged as a consequence of the technological and managerial revolutions of the late 19th century and early 20th century. But, today, the conditions have changed. Teece (1993), for example, criticizes Chandler (1962, 1990) for focusing exclusively on an outdated form of economic organization with a basis in the firms from the automotive, chemical and steel sectors. According to Teece (1993), new forms of strategic and organizational development now exist, which have emerged after the recent revolution in areas such as information and biotechnology.

Table 4.  
Effects of Sector,  
Ownership and Size  
on Diversification and  
Divisionalization

	Diversification	
	Mean	Difference
<i>Sector</i>	.2766	
Manufacturing	.2642	.01244
Other sectors		
<i>Ownership</i>		
Personal	.2727	
Non-personal	.2647	.00802
<i>Size</i>		
Large	.2907	
Small and medium	.1429	.14784*
	Divisionalization	
	Mean	Difference
<i>Sector</i>		
Manufacturing	.5532	-.03171
Other sectors	.5849	
<i>Ownership</i>		
Personal	.5909	
Non-personal	.5294	.06150
<i>Size</i>		
Large	.6047	
Small and medium	.3571	.24751*

\* $p < .05$

Furthermore, nowadays, developed economies have been transformed into service economies and old manufacturing firms have been converted into new service companies. It is important to underline that the services sector is the largest sector in the Spanish and European economies both in economic and employment terms. In 2004, services provided for 70% of the employment in the EU and more than 71% of the gross added value. In Spain, the services sector employed 40–50% of the active population and generated 60% of the gross added value (INE 2002, 2006; Eurostat, <http://epp.eurostat.ec.europa.eu>). Likewise, several studies have indicated that in recent years the most profitable and highly developed companies operate in non-industrial sectors like telecommunications, utilities, and so on (Fariñas and Jaumandreu 1999).

Thus, whereas the services sector was unattractive for the Chandlerian-inspired studies, it is interesting at the end of the 20th century and beginning of the 21st century. Hence, considering the previous arguments about the growing weight of the services sector in today's world, together with the specific characteristics of Spanish companies in a well-managed and highly efficient services sector, we have included this sector in the sample. An analysis has been made of possible differences in strategies and structures depending on whether the company is in manufacturing or the other sectors. The results indicate that no differences exist between the sectors in the choice of corporate strategy or organizational structure (see Table 4).

Likewise, several works have highlighted the role of the company's ownership structure (Mahoney 1992; Palmer et al. 1987; Whitley 1994). When the

firm is family owned, the most appropriate option is non-diversification and non-divisionalization. By contrast, non-personal ownership has a positive impact on the adoption of diversification and the multidivisional structure (Chandler 1990; Palmer et al. 1987). In the United States and United Kingdom, family ownership is far less prevalent than in other countries, which may suggest that these countries are more prone to adopting diversification strategies and multidivisional arrangements than other European countries such as France or Germany. Nevertheless, the most recent contributions (Mayer and Whittington 2004; Palmer et al. 1993) have indicated that the ownership structure does not have a bearing on the decision-making process in such matters. In the case of Spain, our data reveal that the majority of Spanish firms making up the sample under examination have a family ownership structure (specifically, 66% of the sample). Thus, the personal ownership of the corporations is an important feature of the Spanish firms that we have studied. Defining personal ownership by the largest owner, we find that no statistically significant differences exist in the adoption of diversification or divisionalization between family-owned companies and other types of ownership arrangements. Thus, the results obtained here for the Spanish context are in keeping with the findings of recent studies (e.g. Mayer and Whittington 2004).

Another effect the literature has identified as being a possible factor behind diversification and divisionalization is size (Donaldson 1982, 1986; Grinyer and Yasai-Ardekani 1981; Grinyer 1982). In this sense, for example, Williamson (1975) suggested that the multidivisional provides large firms with a tool for maintaining well-aligned incentive systems. Our data show that more than three-quarters of the Spanish companies analysed are large according to EU criteria (specifically, 86% of the sample) and 14% are small and medium firms. We follow the definition of small and medium-sized enterprises (SMEs) adopted by the European Commission (Recommendation 2003/361/EC). Thus, we define SMEs as firms that employ fewer than 250 people, and large firms as ones with 250 or more. We do obtain statistically significant results in this case, which means that size has a positive influence on diversification and divisionalization.

## Discussion and Conclusions

This study sheds new light on the evolution of corporate strategy and organizational structure in large Spanish corporations from 1993 to 2003, examining whether there is something about the Spanish context that would lead us to expect the spread of strategies and structures to follow different or similar patterns to those observed in other countries. Thus, we present the interesting debate between the theoretical frameworks of strategy and organization that basically suggest a universal logic of corporate development, and those bodies of theory that postulate the possibility that each country has its own specific strategic and organizational evolution determined by historic, institutional or other factors.

Spain is not just interesting in itself, but it is a particularly good test-case for theory more generally. The institutional legacy stretching back to the end of the 1930s (the autarkic regime) has conditioned the evolution of strategy and organization in Spanish firms, traditionally characterized by a low level of diversification and divisionalization. Thus, it was not until recently, when Spain was a fully fledged

democracy with an open economy, and a full member of the EU, that Spanish firms began to experience a situation already observed years before by their counterparts from other European countries (e.g. France, Germany and the United Kingdom). And all this in a period in which doubts had appeared about the universality and permanence of Chandler's original model of corporate development. Therefore, with this work, we have tried to examine whether principles of strategy and structure confirmed in other countries and in past decades still prevail.

Our results show an increase in large companies following a diversification strategy and divisionalization. The proportion of companies with a single business strategy and a functional form decreased in Spain during this time interval. These results are consistent with those of Chandler (1962) and his followers in the United Kingdom (Channon 1973), France and Germany (Dyas and Thanheiser 1976), and Italy (Pavan 1976). Likewise, they are also in line with the recent results observed across several European economies (France, Germany and the United Kingdom) following a similar scheme (Mayer and Whittington 1999; Whittington et al. 1999; Whittington and Mayer 2000).

Thus, our findings show that despite the change in fashion, and despite the strong path dependencies inherited from the Franco regime, Spanish corporations have still opted for the same Chandlerian development paths as other European firms a generation before them. The Spanish experience therefore seems, *pace* Kogut (1992) and Teece (1993), quite strong confirmation that place and time may not matter as much as some have argued. Thus, the findings of the current study are consistent with the idea that large firms in industrialized countries follow a universal pattern of growth and show that their strategic and organizational patterns converge with those of certain reference countries.

Concerning the analysis of the Spanish idiosyncrasies in issues such as sector, ownership structure and size of the large corporations, the results reveal that no statistically significant differences exist in the adoption of diversification and divisionalization between firms with a personal ownership and those with a non-personal ownership. Similarly, no statistically significant differences exist in the adoption of a specific corporate strategy or organizational structure between industrial firms and those from other sectors. Another effect that has traditionally been deemed significant for companies is size. The results from the current research do find that large firms are more likely to adopt diversification and divisionalization than small and medium firms.

It is important to note that Spanish firms have experienced substantial growth in the period under analysis. As this work shows, the liberalization of markets, entry into the EU, and privatization processes have allowed Spanish firms to grow in sectors like energy, telecoms and so on. These firms have also undergone strong internationalization processes in this period. This has led to the consolidation of some large firms that, as again the current study shows, have tended to adopt diversification strategies and multidivisional structures. Consequently, despite the criticisms of recent years noted in the theoretical section, the current findings provide yet more support for Chandler's position. Thus, for example, the factors linked to scale and scope economies seem to be still important in firms' expansion processes, which leads to the diversification strategy. Likewise, the multidivisional form still seems to be a valid organizational model to accompany that strategy, in line with Chandler's logic. It is important to remember that this theoretical position has endured in time,



in spite of the differences across countries, as some important studies show (Mayer and Whittington 1999; Whittington et al. 1999; Whittington and Mayer 2000).

Several possible lines of future research follow on from this work. First is to bring Chandler's programme up to date for developed and emerging economies, in order to determine whether the evolutionary patterns of strategy and organizational structure remain the same in new spatial and temporal contexts. Second is to combine Harvard's programme with process research (Pettigrew 1992) in order to examine in depth the origin and persistence of new organizational categories such as the 'hybrid forms' (Galan et al. 2005; Pettigrew et al. 2003; Whittington and Mayer 2000). Third is to examine the relationship between diversification and organizational changes (moves towards a multidivisional form of organization associated with a change to diversification versus moves that could appear 'autonomously').

## Note

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### Jose I. Galan

Jose I. Galan is Professor of Strategy and Organization at Salamanca University. He holds the Ibero-American Chair in Management and Corporate Social Responsibility/Santander Bank. He has published in the *British Journal of Management*, *Industrial and Corporate Change*, *Journal of International Business Studies*, *Journal of Management Studies*, *Journal of World Business and Research-Technology Management* and leading Spanish journals. In 2002 he was awarded the AECA prize, in 2005 the FESIDE prize, and distinguished 'Researcher 2005' by AEDEM and FESIDE, and in 2007 the OCU prize for 'research excellence'.  
*Address:* Salamanca University, Facultad de Economía y Empresa, Departamento de Administración y Economía de la Empresa, Campus 'Miguel de Unamuno', 37007 Salamanca, Spain.  
*Email:* jigalan@usal.es

### Maria J. Sanchez-Bueno

Maria J. Sanchez-Bueno is Assistant Professor of Strategy and Organization at Salamanca University. She received her PhD in Management from Salamanca University and has been Visiting Professor at Carlos III University, Madrid. Her research focuses primarily on strategic and organizational change. She has published in the *British Journal of Management*, *Industrial and Corporate Change* and leading Spanish journals. In 2007 she was awarded the OCU prize for 'research excellence'.  
*Address:* Salamanca University, Facultad de Economía y Empresa, Departamento de Administración y Economía de la Empresa, Campus 'Miguel de Unamuno', 37007 Salamanca, Spain.  
*Email:* mjsanchez@usal.es