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# **ANALYSIS OF ORGANISATIONAL ARCHITECTURE OF SMALL ORGANISATIONS - DOES IT ALLOW BUILDING STRONG LOCAL BRANDS OR PRODUCTS ONLY?**

JEL classification: M31, L2

### ***Abstract***

*Globalization of modern economy leads to many challenges for small local organizations, such as building and maintaining strong local brands, in a complicated environment where global competitors dominate the local markets. This scientific paper will be focused on analysis of organizational structure and architecture of local organizations and its level of development, as one of major preconditions for implementation of advanced marketing managerial concepts that would enable building strong brands, as well as maintaining the customer loyalty and brand equity in a long run. Using the methods of survey and a case study, a sample of Macedonian organizations will be analyzed, and conclusions will be presented in terms of identifying the level of development of their organizational structure and architecture. Does it enable or impede the implementation of effective long term brand strategies? What is the actual level of readiness of local organizations for implementation of advanced marketing concepts and innovation in this context? What are major adjustments that local organizations should undertake in order to build strong brands instead of products only? Furthermore, customer perspective will be presented as well, by using methods of survey and focus groups, in order to identify major determinants of customer loyalty for strong global brands vs. local products and/or brands.*

***Key words: local brands, organizational architecture, customer loyalty, global brands***

## 1. INTRODUCTION

The aim of this paper is to analyze and elaborate the relationship between the type and level of development of organisational structure and architecture, and the capacity of small and medium sized organisations for implementation of advanced marketing managerial concepts that would enable building strong brands, as well as maintaining the customer loyalty and brand equity in a long run. The initial standpoint in the reserach is that there are significant differences between practical implementation of brand management in small and medium sized or large organisations, also elaborated in other studies (Berthon, Ewing, Napoli 2008, p.27). Differences in brand management practices also lead to inequalities in implementation of organisational performance management systems of SME's. The area of brand management implementation in various types and sizes of organisations is investigated by various authors (Mitchell, Hutchinson, Quinn, 2013, p. 1367), and general conclusion is that brands, and the brand management, have emerged as contemporary managerial areas of crucial importance, regardless of the type or size of organisation, across a divergent market sectors (De Cheratony, Dall'Olmo, 1999, p.158). Some authors have examined whether growing, stable, and declining small and medium-sized organisations (SMEs) differ from one another in terms of market orientation and brand orientation. Their study results show that growing SMEs have adopted market and brand orientations to a greater extent than have the stable or declining ones, and that these orientations can prove to be helpful in achieving different kinds of growth goals (Laukkanen, 2012, p. 699). Research findings suggest that market focused learning of SMEs, relative to other learning capabilities plays a key role in the relationships between industry structure, innovation and brand performance. The findings also show that market focused learning and internally focused learning influence innovation and that innovation influences a brand's performance. (Weerawardena, 2006, p.37).

While articles and books have largely focused on the strategic issues around brands and branding, much less attention has been focused on the people who manage them, and in particular, the organisational structures within which they operate (Hankinson, 1999, p.402). Organisational architecture is a platform that integrates the organisational structure with the human and capital resources, with an ultimate managerial goal to achieve desired outcomes and performance for both, the short run and the strategic long run. The ultimate objective of organisational architecture is to design an organisation that would provide maximum value to the customers and in the same time optimize the organisational performance by aligning all aspects of the organisational system.

In this context, some contemporary authors introduce more comprehensive terms, such as "firm's configuration", that refers to integration of organisational structure and architecture, emphasizing that a poor choice of configuration leads to opportunity losses which can be a threat to the organisation's short-term efficiency and effectiveness as well as its long-term viability (Burton, Obel, De Sanctis 2011, p.59).

Even though there are numerous research data on separate analysis of organisational models, or brand management principles, there is an *evident lack of integrative approach* and research studies realized that investigate the interdependence of these two variables. There is a lack of published materials focused on structuring and creating contemporary marketing organisations, especially small and medium sized organisations, and also, on designing structures, architectures or configurations for these entities that would enable implementation of effective brand strategies.

## 2. DESCRIPTION OF A RESEARCH METHODOLOGY

*Initial hypothesis* in this research is that small and medium sized organisations are in significantly unfavorable position, compared to large(r) organizations, regarding their capacities and capabilities for implementation of advanced marketing managerial concepts, specifically, brand management concept. Furthermore, the *main limitation factor* for successful implementation of effective brand management, and therefore, for achieving the ultimate contemporary managerial goal of building strong brands, is the lack of sophisticated, compatible and flexible organisational infrastructure. Determinants of size and number of employees directly influence on the organizational capability for structuring and architecture designing.

Additional *assumption* in this context is that the inappropriate organisational architecture prevents SME's managers from rational utilization of resources, cost reduction and effective managerial control, and significantly impedes any attempt for implementation of more sophisticated strategies, managerial concepts or business models. As a result, small and medium sized organisations are more likely to choose elementary strategies of survival or low cost orientation, instead of differentiation or branding strategies, due to specific requirements in terms of organisational configuration.

The customer perspective regarding the organisational capability of implementing successful branding strategies is also taken in consideration in this context. Namely, the main *hypothesis* is that the brand performance is very important factor for maintaining the customer loyalty, having in consideration that customers are more likely to become and remain loyal to strong brands with perceived premium quality and price, than to low cost oriented category products. The customer's standpoint is therefore emphasized as an extremely important factor that should be taken in consideration in processes of organisational design, in order to achieve maximum performance in a long run.

In this paper's research focus are particularly small and medium sized organisations that dominate in Macedonian economy. According to the official statistics from Macedonian National Statistics Office, 99.7% of organisations in Republic of Macedonia are categorized as small and medium sized, and only 0.3 % could be classified as large business entities, using the number of employees as

a criterion for determining the size of organisations. In the table above, it is evident that micro businesses with less than 10 employees literally dominate in the whole population of registered legal entities in Macedonia (85%), which, accordingly to above mentioned assumptions, implies that the vast majority of organisations are characterized by limited capabilities and emphasized simplicity of their organisational architectures, containing only elementary departments and/or positions of elementary importance.

Table 1

Preview of the size of registered legal entities in Republic of Macedonia, according to official statistics

|   | 1-9<br>employees<br>(micro<br>organisations) | 10-19<br>employees<br>(small<br>organisations) | 20-49<br>employees<br>(small<br>organisations) | 50-249<br>employees<br>(medium<br>sized<br>organisations) | Over 250<br>employees<br>(large<br>organisations) |
|---|--|--|--|---|---|
| Percentage<br>(total<br>number of<br>71290 legal<br>entities<br>registered) | 85%  | 4.2%   | 2.5%   | 1.8%  | 0.3%  |

Source: *Macedonian Statistical Office, Statistical Report No: 6.1.14.13, 24.02.2014*

An empirical study was conducted by the authors of this paper in 2014/15, with a purpose to analyse the structure and architecture of small and medium sized organisations, and consequently, to determine the level of their readiness for brand strategy implementation. Also, according to the research hypotheses stated before, consumer's attitudes, commitment and loyalty for specific local and global brands are investigated in the second part of the study, in order to draw conclusions about their perceptions, associations and judgments about the brands. The study was conducted by using the methods of survey and a case study analyses on a sample of 100 Macedonian organisations, 97% small and medium sized. Further, nearly 3000 respondents – individuals responded to cloud-assisted structured questionnaires related to 55 brands. Cloud technologies were used for data gathering and processing as well. As stated before, the purpose of this part of the study was to analyse the structure and architecture of small and medium sized organisations, and consequently, to determine the level of their readiness for implementation of innovative marketing strategies and brand strategies.

The study confronts two major perspectives on branding - organisational (inside-out), vs customer's (outside-in) perspective. *The assumption* is that in the processes of structuring and managing organisations, SME's managers support their managerial decision mainly by taking in consideration the inside-out organisational factors. Customers perceptions and expectations in purchasing decision making, and post-purchasing processes, on the other hand, are purely outside-in-oriented, and organisational factors or limitations are not taken in consideration by consumers in the processes of purchasing, consuming or attaining emotional attachment to the brand. Logical conclusion is SME's are mainly created to produce category products, and consumers are "programmed" to buy and love brands, not products. The question is - how to bridge this gap?

### **3. BRAND MANAGEMENT STRATEGY AND SMALL ORGANISATIONS ARCHITECTURE – HOW COMPATIBLE THEY ARE?**

Effective brand management, a paradigm of new marketing era, demands sophisticated managerial methods and approaches that could be only applied in innovative organisational structures and architectures. Interdisciplinary understanding of functional areas of management by various levels of functional SME's managers is inevitable, as well as creating the integrative strategic platforms for all functional areas of management - marketing, finance, human resources, production/services etc. Leadership styles, models of communications, performance management systems and other elements of the architecture need to be compatible with the organisational structure. The decision of choosing the right type of organisational structure and architecture as a framework within which brands should be effectively managed, is very complex and difficult for any company, regardless its size or a type. But for a small of medium sized organisations, creation of a sophisticated architecture sounds like unachievable objective, due to serious limitation factors that these organisations are facing with. The main challenge is that, on one hand, organisations need to create appropriate organisational environment, structure and architecture, compatible and flexible enough, to stimulate creative thinking and decision making, which is an imperative in the processes of building strong brands; but on the other hand, formal and structured to the extent that enables optimum performance as well as effective managerial control.

It is obvious that optimization of numerous inside-out and outside-in variables, some often contradictory by their nature, is a very complicated task in practice. To achieve part of the objectives, traditional architecture would be more suitable, and for other objectives, contemporary informal architectures are strongly required. It is an extremely complicated managerial situation - to make decisions on structuring a modern small organisation, that would be in the same time efficient and effective, both in a short and a long run; and keep low-cost orientation, but stay dedicated to implementation of branding strategy in the same

time. Many of the objectives stated are simply impossible to achieve in the same time. In some instances, authoritarian style of management through a hierarchical organisational structure could be more appropriate, and in others, a more democratic style of management through relatively flat organisational structures could be a better solution. It is discussed in the context of brand management theory and practice and the postmodern paradigm shift regarding organisational structure. In a comprehensive empirical study which compares the organisational structures of organisations managing the world's top 100 brands with "outsider" brands, it is stated that "*traditional hierarchical* structures may be unnecessarily restrictive and prevent organisations from responding fast and effectively to shifting consumer preferences. On the other hand, *flatter structures*, which are organised around work processes rather than functions, may be in a better position to understand consumer needs and be able to develop appropriate brand propositions which "fit" the needs of target consumers" (Hankinson, 1999, p.402).

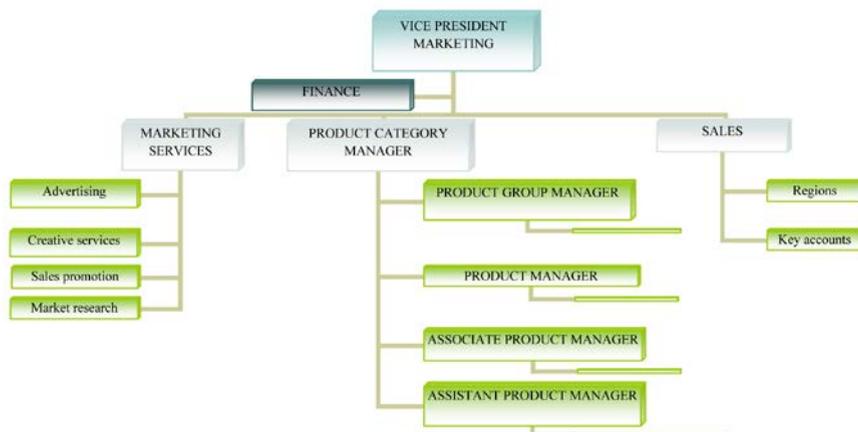
Traditional organisational models, such as product or brand management models, are often criticized by various academics and practitioners, and organisations are advised to introduce contemporary, customer focused organisational structures (Homburg, 2000, p.459). In the seminal book "Integrated Marketing Communications – pulling it together and making it work", eminent authors emphasise that there are three major barriers for implementation of IMC concept in organisations: marketing planning systems and marketing thinking, organisational structure, and organisational capabilities and control (Shultz, Tannenbaum and Lauterborn, 1993, p.162). It is also pointed out that obstacles such as planning or control systems adjustments could be performed in less complicated manner, but altering the organisational structure is a major undertaking, and it could not be done smoothly. It is emphasized that organisational structure is a major barrier for following reasons:

- Vertical organisations are the norm in US, although horizontal structures are needed;
- Functional specialists are also a major hindrance, and
- Communication is a low priority in most marketing organisations

Authors also emphasize that "it has become increasingly clear that the vertical structures, primarily in the form of brand or product management systems, are largely responsible for the failure of marketing in 1990's. Today, the consumer and the customer are focused more on a horizontal view of the marketplace".

Figure 1

Typical Brand Management Organisation



Source: Shultz, Tannenbaum and Lauterborn, “Integrated Marketing Communications – pulling it together and making it work”, Page 162

Further, some vital issues arising out of inappropriate organisational structuring are pointed out, such as inconsistency of marketing planning, decision making and implementation, and it is also emphasized that “top management often holds rights of approval over marketing programs, it is the brand manager and the assistant, and associate brand manager who generally are developing the strategy and the communications programs. The same is true in other organisational structures as well. Advertising or promotion managers are generally far down in the corporate pecking order. Where once advertising agencies met with and discussed communication strategies with the CEO of the marketing organisations, today they meet primarily with group of divisional managers or functional specialists. The obvious implication of this structural location of the communications function is that top management doesn’t consider it to be important.” (Shultz, Tannenbaum and Lauterborn, 1993,p.162).

Having in consideration the findings of the above mentioned empirical study which compares the organisational structures of organisations managing the World’s Top 100 brands with those managing outsider brands (Hankinson, 1999, p.403), in vertical organisations with emphasized hierarchy and vertical linkages and flows of communication between the organisational top and the bottom, the brand managers are usually positioned at lower levels, and submit reports to the marketing managers, that are responsible for several brands and report to the Group Marketing Manager who in turn reports to the Marketing Director. This type of structure may be characterised by a limited spheres of responsibility, a restricted information flow and strict control from the top. Other organisations are shifting towards flatter, more horizontal structures, with fewer management levels

and more brands being managed by relatively junior brand managers. Horizontal structures are flatter, and offer opportunities for improved horizontal collaboration and crossfunctional cooperation, which significantly improves the communications flow, managerial decision making and realization of activities at non-managerial levels.

#### **4. ORGANISATIONAL ARCHITECTURE AND BRAND STRATEGY IMPLEMENTATION - A CASE OF MACEDONIAN ORGANISATIONS**

The first part of the study was focused on analysis of organisational architecture and configuration of Macedonian organizations, and the research data indicate that more than 80% of organisation do not incorporate marketing departments or units in their organisational structure. Majority of organisations contain organisational unit entitled as “*unit of commerce*”, that integrates activities and staff working with procurements & sales, and sometimes even inventories. This old fashioned unit very often includes some kind of sub-unit called *marketing*, or at least, a non managerial marketing position under supervision of commercial or financial manager. Very frequent situation is employment of a marketing assistant or *referent* (a non-managerial position which exists even in cases when appropriate functional mid-level managerial position is not assigned in that structure) etc. and inserting this position mechanically in a commerce unit. Thus, the marketing referent works under supervision of a mid-level manager of commerce, that does not possess sufficient understanding of marketing activities that need to be performed, as a part of marketing strategy eventually designed. Outsourcing external experts and/or marketing agencies is an opportunity for SME’s, but it is not a sustainable solution.

So it is clear that SME’s are facing an emphasized lack of marketing expertise, which is an extremely weak architectural point in the context of their organisational readiness for implementation of branding. In this context, 40% of the organisations responded that there was no formal marketing strategy designed in their company, and over 25% of those who craft formal strategies (medium sized mainly), claim that the top management virtually “dictates” the content of the strategy – only 5% of them independently design their strategies. The lack of participatory strategy design leads to difficulties in the stage of strategy execution, but also causes difficulties on operational basis, especially in *vertical* organisations, and in this cases distortion of commands and reporting is not unusual, which additionally complicates the whole situation. Again, 25% of marketing “referents” report directly to the top management, due to inexistence of mid-level marketing manager. Concentration of several functions in one person is another issue that makes this situation even more complicated. It is a very common situation that the owner – the founder of the small company dominantly

holds the position of general manager, but very often, he/she is also performs the duties and responsibilities of finance executive or/ and marketing manager etc.

Having in consideration the traditional and conventional type of organisational structure of SME's, it must be emphasized that traditional brand management structure could be considered as an organisational innovation in Macedonian context, even though these structures are often criticized for being outdated in developed economies, as described in the theoretical part. And this is not only terminological issue. There are positions of brand managers in many organisations, but in their everyday operations, they perform activities of product managers, logistic managers etc. The name of the position is updated, but the content is still the same, since organisations are organized in traditional way, around their production processes. For example, in one of the largest breweries in Macedonia, there are several positions – brand manager for beer (!), brand manager for non-alcoholic beverages (!) etc. It is more than obvious that he/she is dealing with category products, not brands. In several interviews with managers, it was clear that the real description of brand manager's activities is actually – product manager, or – group product manager.

The second part of the study, focused on consumer's responses, was focused on gathering responses about key differences between products and brands, as perceived by consumers. The goal was to determine the major functional, and especially emotional attributes of given brands, by using the Aaker's approach, and also, to analyse the associations and perceptions that consumers have in mind for specific brands. Study results confirm the assumptions stated in the beginning of the study, that consumer's perceptions regarding the strong brands, are completely different compared to perceptions for local brands (or, outsider brands, as referred to in a study cited before). Local brands are perceived as generic products, or category products mainly, and the level of emotional attachment to them is not even close compared to global brands. Consumer's associations for global brands taken in consideration (ex. Milka, Nike, Adidas, Swatch, Nescafe etc) are in line with the brand values delivered by marketing programmes - strong, positive, emotional. Regarding the local brands, that were carefully chosen to represent high quality products produced by organisations that have good reputation, (ex. Sintagma – Vitaminka, Ellite caffe, Vitanez, Viva), perceptions and associations are linked mainly to the functional characteristics of the products – quality, affordability, durability etc. There are some exceptions, where local organisations are positioned as strong brands in the consumer's mind, like high quality wines ( T'ga za jug, Bovin) or dairy products (Balans + etc), cookies (Resana), mainly due to the tradition and a positive image of the organisations - producers, and the projection of a positive image and reputation on brands – extensions.

The general conclusion is that local brands are perceived more like generic products, or category products, than brands in the real sense. Thus, willingness to pay premium prices for local products is insignificant, and also, consumer motivation in the processes of purchasing remains almost entirely

rational. On the other hand, despite the low living standard, consumers are willing to pay premium prices for strong brands, and consider that “the price corresponds to the quality offered”, due to the perceived premium quality of strong brands. The main reason is their emotional attachment to the brands and emotional pattern in purchasing decision making. The dual nature of brands is very contradictory - emotional (intangible) features of brands are crucially important in the processes of creating tangible value for organisations. Managers of organisations, especially small and medium sized are dealing mainly with managerial situations of tangible nature, and this intangible part of branding is very often underestimated by them, especially if marketing education is not their strongest point.

## 5. CONCLUSIONS

In a contemporary economy, based on intangible assets and knowledge, traditional concepts of organisation of organisations do not offer sustainable sources of competitive advantage. Achieving and sustaining an *emotional attachment* of a customer to the brand is one of the crucial marketing strategic objectives, because long term customer loyalty and therefore predictable future financial flows based on the premium prices that customers are willing to pay, are derived out of this sensitive brand feature. It is clear that strong brands manage to achieve and attain consumer’s loyalty, not solely due to their superior functional characteristics, but mainly due to their superior ability to achieve strong emotional attachment with the customers, to become “lovemarks” and therefore, to persuade customers that they will not be completely satisfied by consuming competitor’s substitutes, or category products. That is how strong brands literally destroy non-branded category products.

The question that arises is – how to achieve these strategic marketing objectives if organisational structure and architecture of local organisations that produce high quality products is very simple, outdated and contains only elementary units. These requirements are great challenge even for larger organisations, but for small and medium sized company with 10-50 employees, especially for micro businesses, these objectives are simply unrealistic. It is impossible to compete with strong brands, managed by organisations that apply ultra-sophisticated managerial practices, by literally being myopic and “using only short range lens”. Managers of SME’s that produce locally branded products/services need to pay enormous attention to strategic marketing activities, in order to maintain loyalty of local customers, and to build locally recognized brands, based on the same principle as strong global brands. But for that purpose, redesigning the traditional architecture of local SME’s is an imperative. Increasing the awareness of SME’s owners and managers, first of all, about the strategic nature of branding and marketing itself, and the necessity of introducing marketing innovations adopted for small and medium sized organisations is one of major steps that need to be undertaken. Partial and campaign approaches do

not lead to sustainable results in this context, and organisational architecture adjustment is one of major steps that need to be undertaken by majority of SME's, in order to better respond to the challenges of "branded economy" of 21<sup>st</sup> century.

It is not difficult to understand why organisations pay such a great attention to the functional features of their products mainly, but, the question is – why emotional features of the products are steel underestimated, and how to manage it in order to start building brands in such primitive organisational architectures? Until this question remains open, organisations will produce and sell products only, not brands!

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