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Organisational design in Containerships Ltd Oy

Does the current structure assist adoption of strategy?

Abstract

Advancement in technology, environments and operational processes has led to an ever changing competitive environment for companies to operate and compete in. These changes are mirrored in the advancement of strategic, management and structural thinking on how to best prepare and adapt to ever growing circumstances. Flexibility has become a byword for organisational structure, as adaptation to change was imperative for success and survival. Designing of structure has become a race to flatten structures, empower employees and maximise differentiation.

In the process of creating business strategy, it is necessary to identify and evaluate a number of uncertain factors influencing the competitive environment in order to prepare probable responses to react to possible future circumstances. As structural thinking aims to adapt and strategy aims to prepare, shouldn´t the logical combining of these two processes offer the greatest reward in terms of competitive success?

Taking on an outside viewpoint of Containerships structural and strategic thinking, and comparing empirical data from both a top and bottom level, should provide insight into the interdependencies of structure and strategy. The goal of this research is to analyse to which extent Containerships´ strategy is visible in the structure, to determine whether the current structure aids or impedes implementation of strategy within Containerships.

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Contents

1   Introduction

An interest in matters regarding management and leadership was developed by the author during initial studies in Metropolia Business School. This interest later developed and expanded into matters concerning strategy in business and strategy in general, accompanied by an interest in structuring of companies. An internship completed in the Lübeck office of the Containerships Group gave birth to the idea of comparing and combining these interests in to a unified research topic.

Earlier research proved the depth of organisational structure theory to the author, with many organisational thinkers providing new, enhanced ways to structure a company most efficiently. As time went on and more research was done by different thinkers, structural preferences developed to move further away from the traditional one boss pyramid hierarchy and adapt flatter structures. With time, structures going deeper into the flat structure thinking started to innovate on structures with minimalist borders, functioning purely on team-to-team cooperation, management spans of control being stretched to the maximum.

A clear trend in organisational thinking can be seen in the developments, bordering new management practices and technological advances of the time. Structure however seems to rely more and more on flexibility and adaptation, which also allows a unified strategy to be implemented more smoothly in organisations. By researching matters related to strategy and combining the data with structural thinking, a relevancy in influences can be found. Structure and strategy are mutually dependent, with an appropriate structure helping in communicating and adapting strategy within the organisation.

Combining this research and analyses on theory to practice, the author used a mixed method of data research on Containerships ´structural and strategic thinking compared with a practical view gained from interviewing the CEO and a local branch manager. This comparative approach aimed to find out how theory and practice are combined within the company, with some insight covered on whether the method used is effective or not in implementing strategic goals through the organisation.

2 Literature Review

To gain a better understanding on how the specific case of Containerships´ strategy and structure are created, it is important to understand how the general thinking on these topics has evolved. A theoretical study of the different structural schemes with their relative advantages and shortcomings will be discussed, later adding on theories on strategy and what is needed to form said strategy and structures. Some important insight will also be gained on how structure and strategy relate to each other within the organisation and how the decision processes will be affected by this relationship. The level of understanding gained through the following theoretical research should thusly clear enough ground for an analysis of sufficient calibre on Containerships´ characteristics.

2.1 Research methodology

As the initial core of the study was to find out about the existing relationships between organisational structure and strategy, a stronger understanding of theoretical facts needed to be acquired. Thusly books and articles exploring and expanding on these topics were searched for and studied. For the main bulk of the resources needed, a study of secondary data was identified as the most effective way to gather the required knowledge. Since these topics have existed and been debated under countless earlier research, finding relevant data this way was identified as optimal.

After acquiring some books from the Metropolia Business School library a relevant base of information was established. The most notable source for information turned out to be the book from the Boston Consulting group (the BCG on strategy), discussing both strategy and structure from both a historic and modern viewpoint. In later parts in the process of acquiring relevant data, web searches on general strategy and structure related issues was undertaken in an attempt to broaden the vision on the topic.

In addition, articles from sites and publications generally viewed as trustworthy and high quality were referred to for a more comprehensive base of secondary research. The final pieces of secondary data to fill the research requirements were acquired from the company Containerships itself, which provided valuable information on the internal functions. The data acquired from the target company was based not only on different top management strategic plans, industry analyses, investor presentations, but also operational manuals, structure maps and other internal process instructions.

For the more focused part of the research regarding the organisational design within Containerships and its implications, the author felt that a more direct approach was necessary. Qualitative primary data gathering in the form of an interview should offer a more individualised vision from both the viewpoints of the subsidiary and the HQ. This way the data gathered from secondary sources could be intertwined with the interview results, from which a conclusion could then be identified after analysis. A qualitative research seemed more appropriate of an approach than quantitative, since the research relies on open data and viewpoints, which can be discerned from a few sources rather than many, which the case would be in a quantitative questionnaire *(Saunders, Lewis, Thornhill p.311-313).*

The author identified a semi- structured approach *(Saunders, Lewis, Thornhill p.310-331)* to be the most effective way of structuring the interviews, encouraging the interviewees to answer with their own words and experience. As the primary target of the interviews, the CEO Kari-Pekka Laaksonen of the Containerships group was the ideal source of open ended information on structure and company strategy. The secondary target was identified in the Lübeck office branch manager Mikko Juelich due to being able to offer a viewpoint from the very far side of the structure compared to the CEO. A set of ten questions was prepared and sent to both interviewees (See appendix 1) before the interview to let them prepare.

The branch manager of Lübeck was unfortunately unable to partake in a full interview due to travels, but thankfully a set of written answers was returned to the author. Comparing these answers with personal experience from time in Lübeck, the author managed to form a sufficient understanding of the branch manager´s opinions. Some points brought up from the interview with Mikko Juelich were also refined into addi-

tional short questions for the CEO Kari-Pekka Laaksonen to compare viewpoints. For the interview the CEO had prepared a comprehensive amount of data, among other sources, from investor presentations and top level strategic plans. During the semi-structured interview an abundance of valuable topics were covered, with an emphasis on strategy, strategic planning in Containerships and finally more in- depth questions about the interaction of structure and strategy.

2.2   Organisational structure

The organisational structure very much dictates the operational style and depth of a company. Structural schemes vary immensely in style, depth, flexibility but the historical model for structuring an organisation is by using the hierarchical or vertically influenced structure, where a top manager controls everything underneath him through middle managers. During more recent history, companies have noticed that flexibility is more and more important in the globalising world, so new structures like the matrix structure have formed. Nowadays managers seem to be both interested and vexed by the requirements of a structural design, as adaptation of a structure needs to constantly update in the hectic global market. *(Stern & Deimler p.281)*

In addition, the flexibility and management control styles vary greatly between companies. The environment seems to be important considering the efficiency of an organisation's structure *(Dudgale & Lyne p.69)*, whether organic or mechanistic. Mechanistic structures tend to follow the hierarchies stated, and arising problems are divided and distributed per function. Reporting is usually vertical. In organic structures problems are faced and solved by individuals with their own intuition and experience, but with the help of others as well since communication is horizontal in addition to vertical. Thus mechanistic structures generally function better in low- uncertainty competitive environments, whereas the organic structure allows a more flexible approach to environments with higher uncertainty.

According to *Bolman & Deal (p.52)* on the basic level of organisation structuring resides the two main ideas of control, differentiation and integration. Problems in structural differentiation are usually about how to allocate work (division of labour & command structures) whereas integration focuses on how to coordinate the efforts of indi-

vidual units within the structure (lateral vs. vertical coordination). These ideas border the aforementioned ideas of organic and mechanistic structures in driving the organisation to build the structure to its needs. It's also mentioned that the nature of operations effectively dictates many specific requirements for structural flexibility *(Dudgale & Lyne p. 76)*, suggesting that identifying the environment is key to an efficient organisational structure.

Another feature worth mentioning is that structure is the primary method to influence communicational patterns within an Organisation. *(Stern & Deimler p.281)* As structure inherently affects the span of control, reporting channels and responsibilities, it is inherently important to adapt a structure that supports efficient communication in the chosen markets.

Whichever the focus of the organisational structure, six main assumptions have been identified to characterise organisational structures *(Bolman & Deal p. 47)*

1. Organisations exist to achieve established goals and objectives
2. Organisations increase efficiency and enhance performance through specialisation and appropriate division of labour
3. Suitable forms of coordination and control ensure that diverse efforts of individuals and units mesh
4. Organisations work best when rationality prevails over personal agendas and extraneous pressures
5. Structures must be designed to fit an organisation's current circumstances

Analysing these 5 main points in addition to other research data of organisational design has led the author to identify a few relevancies. Firstly, the demands of the environment in which the company operates shape the requirements for the Organisational structure. A vivid market demands a structure more organic in nature, whereas a settled market gains more from a mechanistic approach. Secondly, the structure should be adapted to the overall strategy of the company, as strategy needs to be identified by all levels, which often requires communication throughout the hierarchy to be met by the individual workers. It would thus seem that structural changes should be identified on the basis of strategic and environmental demands, then fine- tuned on the basis of internal abilities and finally implemented through communication by layer.

2.2.1 Structure schemes

Structural schemes, or otherwise called organisational structures are a series of reporting and communicating responsibilities that tie an organisation´s operations together. The larger the company, the clearer these responsibilities usually become to better describe the chain of command existing (*Stern & Deimler p. 289-290)*. Over the years as management, strategic and overall business theory have evolved and been explored further, different structural ideas have come up, and some general aspects of these structures will be discussed later on.

With the choice of how the company is or will be structured the manager manipulates the relationships of managers between different layers. The traditional pyramid model of structure emphasises low spans of control and a clear vertical chain of command. The low spans of control mean that under each manager there is a limited amount of subordinates, allowing the top manager to better control and micromanage the chain of command *(Stern & Deimler p. 300-302)*. With advances in the structural thinking, organisational models with increased spans of control have been developed increasing the need for lateral communication and coordination. Regarding spans of control the main characteristics lie in managerial costs vs. direct control through chain of command.

Another form of control is the level of departmentalisation in the company. Organising the company by categories for example dividing specialists by function (production, sales, accounting etc.) can be seen as an integrating way of departmentalisation. With structures facilitating higher spans of control and flattened structure, the strict departmentalisation of specialists might not be the ideal. In all cases the structure chosen influences all relationships inside the company, from communications to chain of command and spans of control.

2.2.2 Hierarchy

Hierarchical structures represent a classical top down structure where a few top managers control the Organisation through lesser middle managers. In the classical pre-

text, top managers had almost unlimited power over every part of the Organisation and everything was operating through top- down edicts in a highly strict structural environment. The purely hierarchical structure can be also referred to as a mechanistic type of structure *(Dudgale & Lyne)* or as a vertically controlled system (*Bolman & Deal).* These ideas all concentrate on the same basis of structural style, which effectively defines the type of model as a skeleton of operational structure, where the opinions of few affect the working conditions and company policies. The lower in the hierarchy the point of view is, the lower the autonomy and ability to interpret edicts, order and authority becomes.

Even though the idea of the hierarchical structure might sound oppressive and strict, it is not always a bad thing, as the efficient working model of a company depends on many environmental factors. In an environment where uncertainty is very low, a standardised structure with strict command structure and punctual division of labour seems to be the most effective in both terms of operational efficiency and labour satisfaction. An example could be the standardised procedures of UPS, where every driver is supported by the navigation computer linked to delivery operations from an office *(Bolman & Deal).* Even the location where the car keys are held is standardised. Due to the standardised procedures, the work for the drivers is simple and efficient, so one UPS driver characterised them as "happy robots". *(Bolman & Deal)*

Still, much criticism towards the hierarchical system has been presented, more with the modern technologies improving all the time and people being more aware. The modern trend for companies is to encourage flexibility, participation and innovations, all which a strict hierarchical structure inherently more or less suppresses. The problem of flexibility could be identified as one of the most important problems of the strict hierarchy *(C. Meehan)*. Modern processes and competitive environments develop very fast due to technological and informational advances that a company in a hectic environment needs to be able to adapt to new challenges quickly to keep ahead of the competition. This has led to the idea of a flattened hierarchical structure, where excess levels of managers and a more empowered lower class of workers provide a better capacity for innovation, adaptability and flexibility.

In the effort to counter the stiffness of the hierarchical pyramid, a structural change needs to be undertaken. The initial obstacle is arguably the amount of managers in the pyramid, and removing the excess layers of managers is called flattening the structure. As lower level manager are usually more aware of the practical side of day to day operations, the flattening should be started from the top *(Stern & Deimler p. 301).* By removing the excess layers of managers, a flat structure attains larger spans of control, which means that managers need to learn to trust and empower their employees in their tasks more, since micromanagement becomes decisively more time consuming. This in turn emphasises better modes of communication within the company, as successfully communicated processes are generally more successful than ill- communicated.

In principle, a flat structure is essentially a hierarchical structure, where excess middle management layers have been removed. This type of structure emphasises lateral communication and integration, which offers benefits in units being better able to communicate in a cross- unit fashion, and with the increased empowerment and emphasis on individual skill, adaptation to local problems is increased *(Dudgale & Lyne p. 69)*. Other positives about an organic Organisational structure like this are lower costs and improved employee morale. With the flattened management structure, less expensive managers are required, lowering salary costs. Workers also feel more appreciated with the increased participation and importance, which leads to internal motivation, which hugely affects turnover costs *(D. Griffin).* In most cases though, a flat Organisation works best in small companies or small parts of Organisations. As size increases, more managers are needed to keep the strategic level of operation functioning. The structure, style and strategy should change with the complexity, amount and width of the operations lest the advantage of size turns into a handicap due to inflexibility and bureaucracy *(Stern & Deimler p.285).* With the primary idea of a flat, organic structure being increased innovation and flexibility, Google is a prime example of emphasising employee empowerment, encouraging innovation and flexible approaching. All Google employees are encouraged to work in an environment where personal ability and innovation hail from motivation.

Even with increased adaptability, the flat structure offers its own share of problems as well. Without the formal hierarchical structure of reporting, many employees risk con-

fusion as part of the very different tasks *(D. Griffin).* Without any formal guidelines for what to work on, when and how, the tasks and problems are left for the individual to be figured out, which in some cases leads to confusion and loss of efficiency. Another big problem is that the large variety of tasks an individual needs to tackle produces a lot of generally good workers, who lack specialisation *(C. Meehan).* In the long run these factors negatively affect company growth and maybe even competitiveness. In most cases the flat structure only works effectively in smaller companies. Larger Organisations tend to require more hierarchy to ensure strategic level decisions reach smaller units, but still the flat model can be implemented in smaller units of a large company effectively.

2.2.3   Matrix

The first Matrix structures began emerging in the 1960's in industries struggling with high uncertainty and unwieldy environments. A short way to describe a matrix structure is to characterise it as a structure of control, where units respond to two managers instead of one, creating a dual chain of command *(Davis & Lawrence).* Arguments also state that for a Matrix structure to be competitive and effective, the company control structures need to be laterally inclined, the managers able to control two diverse chains of command and able to process volumes of information efficiently. When effectively implemented, a matrix structure allows the company to process information from different operations with a high efficiency, allowing the company to respond to threats and problems arising from customers or operations with flexibility and speed. (See Figure 1 below)
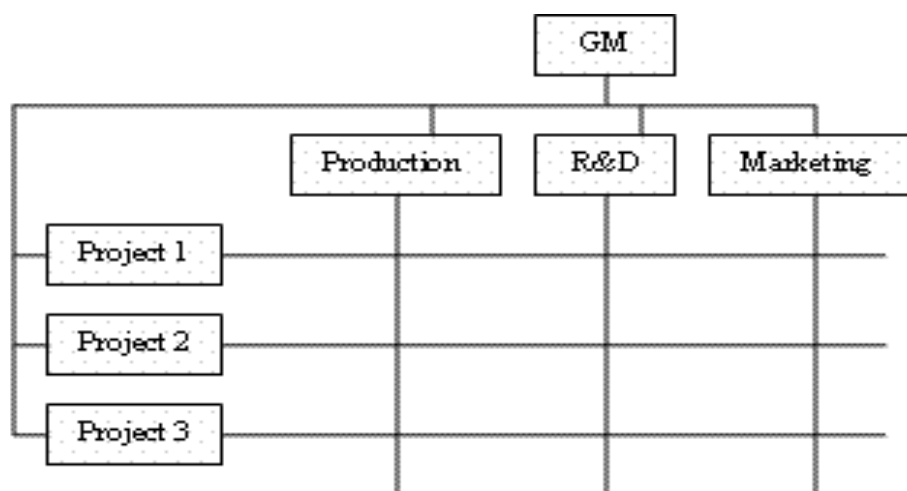
Figure 1 *(Example image from smartbiz.nu [online])* shows a simplified example of a matrix structure, with the characteristic dual reporting lines to the GM. This style of reporting allows the GM to gain Intel on both ground level and from a higher production level.

In many cases the matrix organisation is implemented when the company has many diversified functions within its portfolio, often which span over many locations. The simplest matrix usually involves dual command chains, for example a model where the production and sales operations report to both a country level manager and a product department manager. This way information of both local characteristics and product characteristics is gathered to the higher level managers. This extra input of information then ideally broadens the strategic vision of the management, helping in making better decisions on a strategic level. The benefits of a matrix structure can also be seen on a more personal level, as the structure itself promotes managerial involvement in day to day operations, creating a more democratic ambience within the working units. With the feeling of involvement and appreciation, employees become more motivated which improves overall morale *(Johnson)*.

Even with these identified benefits, it must be mentioned that the matrix structure is still relatively new, with many companies implementing it with negative efficiency due to the complexity of the structure itself. The complexity is thus identified as the biggest negative in the structure, as the multiple chains of command can be difficult to manage and identifying the relevant information from irrelevant due to multiple sources often leads to confusion and thus, lack of efficiency. With the implementation of a matrix Organisation, the management style switches from single management to a more network based management, which is inherently more complex due to the amount of increased lateral linkages *(Bolman & Deal p. 58)*.

2.2.4 "Modern" structures

Today´s business problems caused by the ever increasing demands on innovation, customisation and quality are beginning to take a toll on the companies too inflexible to react to these changing demands. The modern way to counter these problems is to organise the design and customer service tasks to be operated by small teams, with a

hands- on level of touch to the matter *(Stern & Deimler p. 289).* These teams are trusted to interact with the customer and operate highly independently, with senior management only providing a strategic vision and goal for the operation. These types of structures are highly organic in nature and are called network structures, since the company operates around small teams, which communicate and interact between each other. Such types of structures are arguably the modern version of organisational design, emphasising highly autonomous teamwork to maximise flexibility and local customisation.

This approach to differentiating the command structures to involve larger spans of control and empowering individual workers and teams allows a wider variety of people to identify problems and challenges. This however could pose a severe challenge to the traditional style manager, since heightened spans of control render micromanagement difficult, so the manager needs to learn to trust his team or subordinates and concentrate on communicating strategy and goals *(Carter McNamara).* Here also must be mentioned that the network based structure is inherently ill suited to exploit scale in large projects and organisations, as the focus is on ground level teams, as the larger the company, the more vertical bureaucracy and control is needed to communicate high- level strategy *(Stern & Deimler p. 291).* The network style solution can however be implemented in some part also in larger organisations, e.g. incorporating new product design teams or shuffling of product lines together and bringing them under team management.

The organic network-based structure is often a temporary organisation, since the very name of the game is to adapt, learn and change. In practice, this means that the teams are assembled to pursue a goal or project and when it is completed, the team is then disassembled and the members gathered in other teams. Even though the structure is arguably effective at local adaptivity, it would seem that it can also harm the organisation on a strategic level by focusing more on the current than on the future. Here once again can be remembered that a structure should ideally follow strategy built from identifying the environment and effectively communicated by the higher managers.

The modern search for a perfectly adaptable structure has lead researchers to deepen the idea of a temporary and flexible organisation, leading to structures called "boundaryless" organisations. In effect these organisations function on a temporary basis, where communication through email or telephone is the main building block *(D. Griffin).* The network structure can be argued to fit under the boundaryless category, due to the open view on inter-team communications, though organisations like "virtual" and "learning" take the idea even deeper.

Virtual organisations take their name from the style of structuring the organisation around virtual communications. Highly temporary in organisation, the virtual structure attempts to take the team building in pursuit of a goal to another level. An example of the virtual organisation can be found in a movie making company, who assembles all the required parties for the duration of the creation. These parties might have crews filming on different continents and everything is then brought together by communication. After the movie is done, these parties then dissolve. In a way, the structure type can be argued to remind of global value chains bringing parts of a product with added value.

It seems that even with all the benefits teamwork- based structures give to adaptiveness and flexibility concerning changes in the environment, a single structure cannot answer all questions. Predicting the future and preparing for it still remains an obstacle to these structure types, as the emphasis is on adapting, not predicting. Arguments also exist that structures relying on diminishing boundaries do not bring the best results alone, but rather should be intertwined with hierarchical models (*John P. Kotter).* This intertwining of structures should create an active core structure to manage the exterior, where the operations might run on a more flexible basis. In any case, creating a functioning structure requires communications and process management, having all members on the same page of the situation and motivated on the same goal *(Stern & Deimler p. 294).*

This brings to light the idea of a learning organisation. Successful adaptation of strategy requires identifying of the current and future events and communicating it throughout the chosen structure. A learning organisation aims to create a structure of motivated workers where openness, idea sharing and new perspectives create efficient

grounds to acquire and transfer knowledge *(Garvin, Edmondson, Gino).* These learning processes are generally different on different levels of an organisation, but analysing what has happened, what was missed and learning from the past can be an accumulated effect on the whole organisation. Creating such comprehensive data across the organisation requires an active group of managers and leaders guiding the members to reach these objectives *(Stern & Deimler p 327).* Failing to support these processes could cause a hiatus in learning and failure to recognise industry changes, which would in the end lead to a decline of the company.

Structuring a company can be a difficult process with identifying the correct environmental trends, implementing the right communicational processes and making sure the management is able to delegate the goals further. These challenges also seem to shape the requirements and characteristics of the structure intended, and a few conclusions have been drawn from these theoretical ponderings:

- Structure seems to affect the communications patterns within an organisation first and foremost.
- To successfully implement changes in the communication patterns, a strategy must be identified to be communicated
- A level of knowledge of both internal and external characteristics must exist in the organisation to identify requirements for strategy and structure.

Learning and knowledge transfer are also a critical part of creating intellectual assets for the company, which in turn generate the knowledge required for strategy and structure creation. These general characteristics of structures thus seem to recommend that structure itself should not be the goal of organisational reframing, but a supporting tool in implementing and adapting for requirements of strategy and goals of the company.

2.3   On Strategy

Every business has some core reason why they operate, be it to offer a service, to produce a product or to cater to some other need in existence. Business strategy is a way to plan and act upon the reason of operations and how to make the procedure as effective as possible. The reason of existence thus initiates all process at the customer

level, with the core operation functioning to satisfy a need *(Stern & Deimler p.137)*. Strategic requirements emerge wherever a differing view on the needs of the customer is created, where the customer group is diversified where it earlier was viewed as homogeneous *(Stern & Deimler p.137)*.

To think of the customer as a core of all strategic requirements is however not a suitably comprehensive viewpoint and the idea must be elaborated further. Different aspects affect the customer, including price, needs and availability of options. These dimensions create different segments of customers, reachable through varying implementation of strategies. The creation of these strategies usually requires identification of variables affecting the outcome, for example availability of options from a competitor.

To bind down the implications and viewpoints on strategy and its creation to one or few core points defeats the purpose, since strategy itself is so encompassing a term. Business strategy is often linked to military strategy on an ideological level, since both are the result of conflicts composed of actions and counteractions, and the study of how to best predict and use the results of these conflicts. In both cases the focus lies on being able to identify factors contributing to the current situation, and as the infinitely more challenging task of identifying the uncertainties of challenges, including opponent movements, environmental changes and future in general. In other words, preparing a strategy requires *"intelligent management of probabilities" (Carl von Clausewitz)*.

2.3.1 Environment

A strategic competitive environment is often highly dynamic, with differences in characteristics across the multitude of industries in today's economy. The competitive environment is partly developed by the strategic decisions of the companies functioning in that field and partly by the inherent characteristics of a specific industry. The industry itself dictates the parameters of the competition, with different resources, technologies and processes limiting the capabilities of companies *(Gamble & Thompson p.58)*. A vision of the industry's current situation helps decision makers in identifying the competitive environment and its future fluctuations, resulting in better strategic decisions.

Within an industry there are often set amounts of driving factors that dictate the environment within the industry and according to the five forces of threat figure presented by Michael E. Porter, rivalry is the strongest of all the threats presented to a company in a competitive environment. Competitors offer a similar product, strive to attract the same customers and outdo the other companies strategically. On the highest level this kind of state is called strategic competition.

The competitive environment with the changes brought by technological advances, theoretical innovations and practice development is increasingly hard to predict in the effort of finding new advantages to harness. With modern channels of communication, information flows almost instantly across the globe, so reaction to change needs to match this speed lest the advantage of a first mover is lost. However, identifying chances for a competitive advantage hails not only from understanding the current trends, but also in identifying the characteristics of the competitive environment the company operates in.

The idea of comparing multiple small advantages against one or few large advantages offers some insight where and how to generate the greatest advantage strategically. (See figure 2 below). A company with many small advantages offers smaller strategic success than a larger advantage *(Stern & Deimler p.56)*, since a large advantage is more sustainable in the long run. A market filled with multiple companies offering small individual advantages tends to equalise in the amount of market share per company, compared to a company offering a significant (or in the best case multiple significant) advantages that would logically attract more than average market share, presented by the terms "specialised" and "volume" strategies.

Strategic Environments Matrix
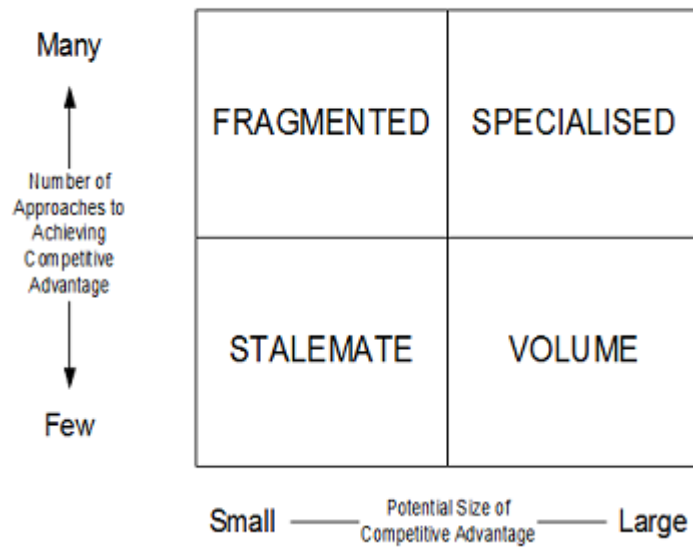
FIGURE 2

The Boston Consulting Group has prepared a matrix, which shows the value elements of different advantages. These factors can be used to help understand a successful strategy once advantages have been identified.

2.3.2 Competition

Arguably, a state of strategic competition drives competitive environments into a dynamic state, with every strategic decision prompting a counteraction from the competition *(Henderson: 1980)*. This can be seen as a basic state of a competitive environment, where each party attempts to come on top. A dynamic competition with diverse companies as instigators of rivalry serves to drive the markets ever onward, and with forces like this moulding the environment of competitiveness, quick responses to opponent's strategies are often rewarded. This leads to companies having to develop better abilities to respond to new threats and phenomena in the market.

In building an organisation and preparing a competitive strategy, some of the most important factors towards identifying these needs are the information on the environ-

ment and the competition itself. The competitive environment is also influenced by technologies and their adaptation. By successfully identifying the competition and the competitive environment, a company is better able to respond to arising requirements and challenges. The dynamic state of competition has only become more hectic and volatile with introduction of modern IT technologies, causing the competitive equilibrium to be potentially shaken even more radically than before.

This equilibrium is mainly influenced by actions by those operating in the same area or industry. These actions are undertaken in order to achieve an identified goal, often in attempt to surpass the competitors in some sector or another. These actions with possible counteractions lead to changes in the competitive equilibrium. Interestingly, in strategic competition a strategic failure can have as large an impact on the equilibrium as a strategic success *(Henderson: 1980).* Rivalry and competition can thus validly be named the one of the most if not even most important influence on company strategy, due to the direct focus on supplanting opponents.

Even if direct rivalry can be identified as the strongest influence on strategic behaviour, developments in technology and environments have diminished the barriers of differentiating into other industries, in a way widening value chains and market presence. This has intensified the threat of new entrants (*Michael Porter)* in many industries on a global scale, which are in another viewpoint possible future competition. The dynamic nature of modern industries has developed to a level of mobility, that identifying trends and moving quickly to secure advantages that are preferably hard to imitate *(Stern & Deimler p.88-89)*. This leads to ever increasing risks in new entrants and a quickened pace in competition, calling for effective learning infrastructure within organisations to remain successful.

2.3.3   Business strategy

The term "business strategy" is a term so large that it is easily misunderstood and abused by many. Overall business strategy is the ability of a company to manage and sustain a unique differentiation over time through actions and ideas. *(Stern & Deimler p. 1)* In general business strategy is the force and ideology that drives organisational decision making on the highest level. The problem thus arises from identifying the cor-

rect means to maintain and improve on this advantage through successful decisive action. So to succeed in long term strategy, logically one needs to understand the level of strategic competition in the environment their company operates in.

Strategic competition is based upon the foundation of "normal" business competition, but adds to it by adding requirements of understanding a larger dynamic entity compromising of competitors, environments, customers and the resources (money, people, materials, time) available *(Stern & Deimler p.2)*. Understanding the elements of strategic competition should then ideally lead to an ability to predict consequences and risks of actions taken, helped by understanding what resources are uncommitted or used with sub-par efficiency. This understanding can be better understood by using existing tools and methods, e.g. Porter´s diamond. In other words, efficient business strategy implementation identifies and overcomes barriers and challenges both internal and external to achieve strategic goals.

The idea of achieving a sustainable competitive advantage has been the mantra and goal for companies to pursue, but identifying and securing such advantage has been debated ever since the term was invented. There are almost endless different opportunities to achieve such an advantage, and in modern ever changing markets and competitive environments the companies best suited to adapt and learn seem to be thriving *(Reeves & Deimler 2011)*. Being able to identify current and future trends in the competitive environment can thusly be identified as a critical part of competitive strategy.

With the competitive environment evolving as quickly as it does in modern markets, arguments and articles stating that a sustainable competitive advantage is no longer valid have started showing up, claiming that change renders everything unsustainable at some point *(Rita McGrath 2013)*. Another view on the matter is to change the thinking behind the term competitive advantage, effectively modernising it. One such term that can be used to refer to the ideas of competitive advantage is "Strategic competency*" (Thomas E. Ambler 2015)*. Strategic competencies, also going under the name "Intellectual assets" as explained by Ambler, are the *"combinations of skills, processes and knowledge that provide high value to our customers and set us well above our competitors in terms of differentiation and difficulty to copy."* In other words, the abil-

ity to succeed in strategic competition hails not from identifying external changes, but from harnessing internal capabilities efficiently and building a strong unit to withstand and adapt to changes in an organised manner.

The idea itself can be considered as a way to think outside of the box, as it certainly opens up matters from a different perspective. In addition, making sure of efficient use of intellectual assets helps open the Organisation workforce to inventiveness, from whence new ideas to thrive in the competitive environment might stem. This viewpoint however does not necessarily fall outside the tenets of the traditional competitive advantage, as managing intellectual assets could be argued to be a way to differentiate and seek advantage within the company itself. It would thus seem that as an ideal, striving for competitive advantage through strategic competition and an efficient business strategy will not grow obsolete, but change with time and thusly remain a highly debated area.

3   Combining strategy and design

For the purposes of this chapter, the implications and characteristics of the different organisational structures and strategy will be explored further in an attempt to identify trends leading to successful adaptation of both. Building on the initial findings described during the literature review, the goal will be to broaden the knowledge acquired of strategy and structures and finally combine it to the existing designs in Containerships. As a company operating all around Europe, the structural adaptations will be analysed to see how well they would support the growth and efficiency of the foreign subsidiary, with an example focus taken on the Lübeck office in Germany. The Lübeck office was chosen for the example on the grounds of the author having completed a 6 month internship in the office, so local contacts and information is available. The Lübeck office also suits the research objectives due to the young age of the office, as the office was founded only one year ago, so the organisation is still evolving. This young environment gives a chance to examine the effects of the organisational strategy and structure from the point of a fresh subsidiary, and how they influence the office.

3.1   Target Company

Containerships Group is a Finnish company operating throughout Europe and in Russia. In total the company has operations in 23 countries with 21 own offices and 2 agencies, and operates a total of 15 vessels capably of container transport. The company offers a primary service of short sea shipping with a door-to-door basis, taking care of the logistics of goods from the shipper´s factory to the warehouse of the customer. This process is controlled from Helsinki and executed through a regional set up, where local offices take care of the operations, bound together to regional offices, and in total it encompasses transport by trucking, railroads, barges and shipping. With this multinational organisation encompassing over 500 employees, an interesting level of structural and strategic perceptions should be found.

These transport options as well as the operative structure are organised in three main business units, which are land, sea and Mediterranean units. The value for the company through the transport processes are labelled under land, sea and terminal opera-

tions, where the shipping over-seas provide the largest net sales of the three. An option to convert cargo from trailers to containers also exists within the land operations area, called cross docking, which is aimed to contest the large market for trailer transport existing especially in Germany.

Containerships has maintained a presence in Germany since acquiring the first office in Hamburg in the 90´s through an acquisition. This presence in Germany has only grown during the years, as Containerships has identified a gap in the market for containerised short sea shipping instead of "Ro-Ro" shipping. Roll-in Roll-out shipping, i.e. driving cargo trailers into a vessel, shipping to another port and driving the trailers out. Containerships aim to challenge this business by their presence in Germany. For this, the recent addition of the office in the city of Lübeck promises a growing prospect for the company with the establishment in such a well- connected area.

The office of Lübeck was identified to be a valid point of comparison in regards to the research, as the process of integrating a new location to adhere to the structure, culture and organisation requires time and management. With analysis of progress in a fresh office, deficits in the structure and strategic approaches can possibly be found and as such, comparing the practice to theory should provide interesting results. Lübeck was also chosen over other local offices due to the author having completed an internship in the office, so first- hand knowledge and personal contacts were readily available.

Another interesting topic within the target company is the relatively recent change of structural models. Containerships is a family company and has earlier functioned on a traditional hierarchical basis with Veli Ragnar Nordstrom (founder) as the CEO and owner calling the decisions. This system functioned some years even after his three children took over, but in the recent years the company has moved towards a more flexible structure taking on aspects of a matrix approach. This process of change is still being implemented, and so offers to provide interesting chances to compare how the structural changes and strategy coincide within the multinational organisation.

3.2   Containerships´ model

With operations running across Europe into Russia and the Mediterranean, Container-ships has divided the operations into three main business units. The focus points are The Baltic Sea, the Mediterranean and land operations. These three business units function as a core link in the reporting network of the company, gathering the relevant data from the subcategories for the HQ in Helsinki. Through these operational lines the company objectives and strategy are also communicated from top to bottom.

The day to day operations of the Containerships process is based on a ideological level on three sections of theoretical processes. The three processes are identified as Steer-ing-, Co-operation- and working sections *(CS Operations Manual).* These sections each describe the Containerships ideal code of conduct, with a specific part of the organisa-tion in mind. Steering focuses on the management level of the organisation, offering guidelines to the strategy, goals and objectives for the company. A deeper view into values and advantages is also offered. Cooperation explains the core processes that employees will have to follow, explaining the main functions and support functions within the organisation´s operations. Finally the working section explains the system environment, documents standard and general procedural requirements within the company. These ideologies can be considered a theoretical ground on which actual processes are built on, thus remaining a mostly invisible set of guidelines for practice.

By binding these organisational process standards to the underlying structural designs, Containerships strives for the requirements of flexibility, yet retaining a cohesive struc-ture to ensure a direct flow of information. The company strives to keep the manage-ment staff proactive by having implemented a meeting standard with regular intervals. These meetings vary with their intention and members, but different meetings for varying manager layers offer each manager a chance to interact with superiors and subjects and receive feedback *(CS operations manual).* Through these identifications and methods, the company has a theoretical basis on which a general strategy can be communicated throughout the structural layers.
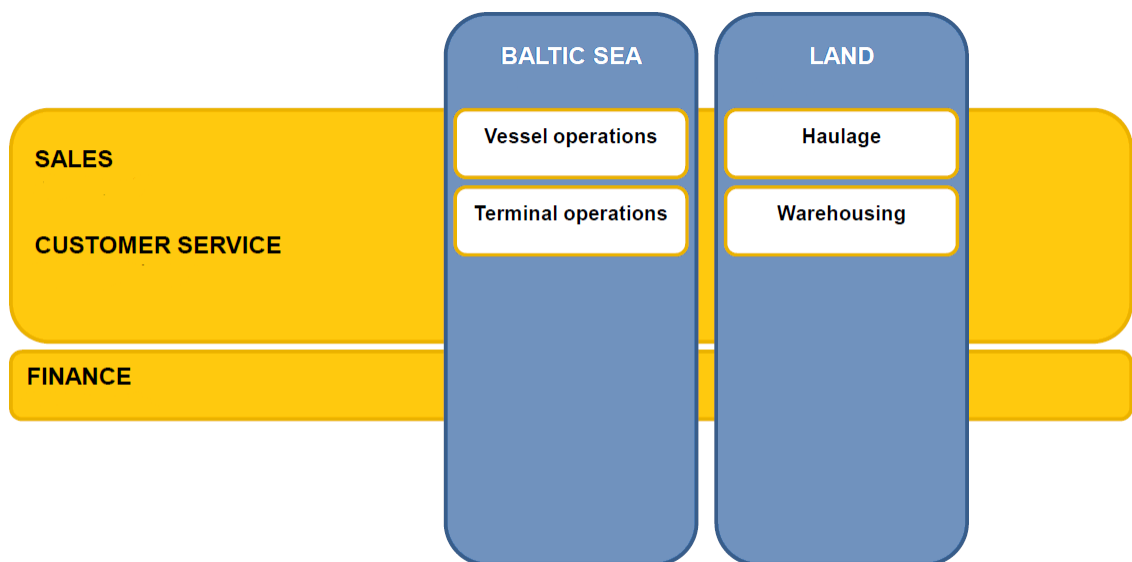
3.2.1 Structure

As mentioned earlier, the structure of Containerships takes dual responsibilities through creating three high level business units in (Baltic) sea, Land and Mediterranean areas. These three areas function as the main profit centres for the company, supervising the strategic operational level. Further down the structure is divided into six regional offices, the Nordic, Russian, Baltics, West, UK&IE and Mediterranean areas*(Cs organisation guide)*. Within these regional offices happens the main control over the land and sea operations, under the instructions of the business operations units. In addition to the land & sea operations, the regional offices also supervise the sales and customer service divisions *(see appendix 2)*. The last level of the organisation is the local offices situated under regional offices, where the day to day operations of customer service and sales tasks are handled. The Lübeck office, our example, is one of these local units, functioning under the regional office west.

Containerships is still however in the process of changing the structure towards the intended level of flexibility granted by the planned matrix structure *(Laaksonen)*. In the past Containerships was structured according to the traditional way of the owners governing most everything through layers of managers. The old system undoubtedly contributed to the initial success of Containerships in providing a clear centralised strategy and way of operating, allowing the company to grow and spread. As the modern business environments evolve with such speed nowadays, Containerships however recognised a need for flexibility and adaptability to stay competitive, so a structural change process was initiated.

A structural model was prepared by the HR department and CEO with the audit of the board members (owners) to enhance local responsibilities and autonomy in addition to adaptability through splitting operational and regional activities into a matrix. Initially this change, as change inherently does, caused confusion and obstruction, for example some offices clinging to old habit kept contacting a local or direct superior instead of the relevant option available through the operational line. After careful communication of the strategy and goals, change started to happen as the employees got used to being able to get a more precise answer from a specific person and processes were

smoothed down. A notable key to the successful restructuring according to CEO Laak-sonen comes down to "ability and character of the leaders involved".

On a scale encompassing the entire organisation, the regional offices can be seen as a basic unit. The regional offices are responsible of organising the main business processes within the region, controlling and guiding the local offices in their operations *(see figure 3 below)*. These local offices are responsible for the customer relations and typically for local haulage and harbour services in their area. For example Lübeck has functions of customer service, guidance of an outsourced terminal operator and local administration. Tied together with the functions in Germany, Lübeck also cooperates with a sales office located in Duisburg. Together with the customer service in Lübeck, these offices encompass the German local business under the guidance of region west located in Rotterdam.
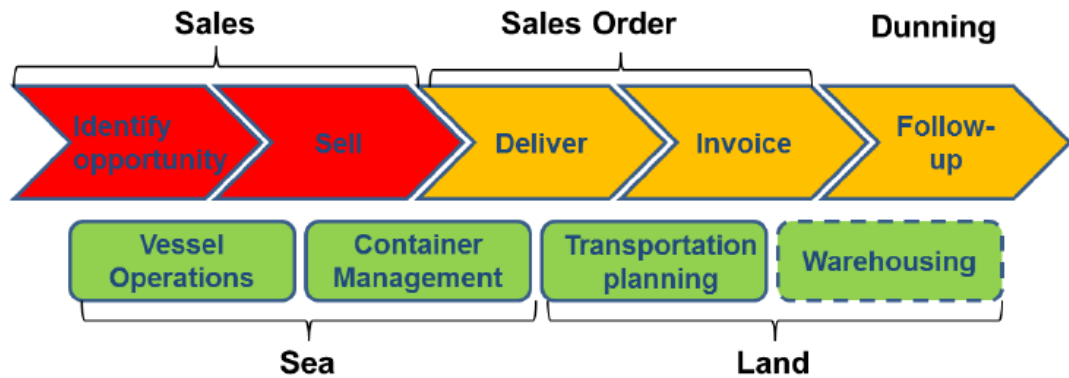

Figure 3 *(CS organisational structure)* explains the matrix responsibilities within region west, split into operational (blue) and regional (yellow) responsibilities (names omitted).

This structure emphasizes dual reporting responsibilities throughout the company organisation, which can be identified as the main function of a matrix structure. By splitting the reporting structure by the two most relevant functions of the company, yet guiding operations on a regional level, the company has adopted a structure where information on multiple views can be acquired. The inherent challenges of the matrix

style could however distort the coherent view of top strategy, if regional managers and functional managers disagree. To battle these threats, a standard of two responsible managers has been implemented to function in each regional office to form the management team to alleviate any communication misunderstandings.

As the matrix structure tends to distort responsibilities for both reporting and managing due to the dual links, Containerships also faces this challenge in cases of contesting regional and operative unit authority. The dual management team system mentioned before offers help in this, yet does not solve a conflicting report structure. For this a solution has been seemingly found in an integral IT system, encompassing the entire company, with each office having a local domain. All the information of bookings, invoices and transport details of day to day tasks are processed through this program and are readily available to anyone with the correct authority *(Harri Nordström)*. From here raw data can be acquired from manifests and processed by the higher ups to form the required reports. By having implemented such a dynamic reporting system, Containerships has seemingly managed work towards dissolving the sometimes confusing borders of matrix reporting and turned it into a way to map performance from multiple angles.

Binding together the processes and operations with the structure, a process map has been created to easier identify the steps taken in the business. This process map divides the operations and functions into three functional levels to clarify the main activities within the organisation. The main processes are sales, sales order management, vessel operations, container management and Dunning (*See figure 4 below).* The relevance to company structure can be seen in the division between sea and land sections, which are part of the main process. A support structure has also been created to enhance the overall efficiency of the processes. This support structure aims to penetrate all levels of the structure by offering easily reachable IT, finances, HR, security and development functions to any individual in the organisation in a way binding the strategy to the structure of the company.

Figure 4 *(CS operations manual)* explains the core processes within the organisation, how everything is structured to function to bring about the service.

3.2.2   Strategy

As the short sea shipping industry faces changes and challenges, lately most notably in a renewed sulphur emission control area (SECA) *(EU Commission 2015)* act and troubles with the Russian trade area, strategic planning in Containerships needs to adapt to current and future events. Containerships has identified four important pillars for the overall strategy (*Laaksonen)*, in the following order:

1. Environmental friendliness & LNG fuel as a competitive advantage
2. Developing the whole end-to-end service
3. Expand market presence in current and non-current areas
4. Improve overall efficiency within the organisation

Having identified environmental friendliness as the most important strategic pillar in the form of LNG can be seen as not only an adaptation to current events, but also a continuum to an identified advantage. This advantage is based on a comparison between trailer transport and container shipping, where a Brussels- Moscow route is roughly 30% less pollutant and 50% less expensive when traded by ship *(CS business update Feb. 2014).* The LNG option has been identified as the latest strategic investment for the company, since the SECA directive implemented early 2015 will drastically increase refuelling costs of the shipping industry. An advantage for containerships can be identified in LNG fuelled vessels, since refuelling stations are still rare, but due to

the Containerships shipping rotation in the Baltics and North Sea a refuelling stop can be made in any port of call with the required LNG stations *(Laaksonen)*. An early adaptation would thus optimally create a routine rotation at a time when competitors are only moving towards the option.

To improve the overall efficiency of the whole business idea of door to door has been undertaken as another important pillar for strategy. A critical part of the main operations itself, the door to door service relies on close customer service activities, and a reliable schedule on which customers can build a trust on. These operations are built on and supported by achieved advantages in an encompassing network of local offices, and the two week rotation of ports with each vessel in the Baltics and North Sea. This customer orientation on a local scale has led to Containerships attaining a regular business contact, with 70% of the top 20 customers staying with Containerships for over 7 years *(CS investor management mark-up 2015)*.

In striving for an overall improved service in the door to door concept, Containerships not only approaches customers by local offices, but also works to improve the logistic chain in fluency and volume. Improving local infrastructure to better serve truck, ship, terminal and railroad services helps make service more consistent and reliable *(CS business update 2014)*. These concrete improvements are one part, but to make truly efficient changes in the service, learning and organisational thinking are a critical point. Containerships is constantly trying to improve the structural links and emphasise critical thinking throughout the organisation by team meetings. Innovativeness and idea sharing are a goal to attain through these layer to layer meetings, which can then be communicated further. According to Laaksonen however, "many regional managers are still young in sight of the structure, some offices are still new and some cultures slower to adapt" so a satisfying level of critical thinking and innovativeness is still to be achieved.

The core process for identifying and acting on strategic opportunities seems quite similar to other companies. A centralised core of top managers gather to discuss recent events in their respective fields (land, sea, terminal), from where a set of common analysis tools are used to identify trends. Porter´s five forces of threat offer the company a view on industry influences *(CS strategic industry analysis)*, whereas the PES-

TLE model has been used to identify specific advances, whether opportunities or threats *(CS strategic influences analysis)*. As a process, first internal strengths and weaknesses are analysed and assessed. These internal characteristics are then compared to the industry to achieve a broader view. After this, both the internal and external findings are split to the strategic operatives in regards of land, sea and Mediterranean areas, from where they are communicated downwards in the structure. The final strategic view of the company can be identified by the employees in process guidelines, local goals and unified strategic goals. For example regarding the findings from the interviews, the current LNG strategy and customer orientation seems to be identified by both top-, and local level managers and employees.

This centralised core identifying and creating strategy functions also as a driving force for implementing changes throughout the company structure. As argued by Stern & Deimler (*BCG on strategy 2006:237-238*), an activist center functioning within a matrix or otherwise flattened structure is a way to broaden strategic vision externally, and implement emerging innovativeness from lower levels. This argument seems to be backed by John P. Kotter *(HBR 2011)* claiming that a guiding hierarchical centre helps optimise processes, whereas the network structure facilitates innovativeness and adaptation on more local levels. Coinciding with these arguments, Laaksonen mentioned a benefit in the CS matrix being that emergent "best practice" can be easily identified and experimented on, which is also argued by Stern & Deimler *(BCG on strategy 2006:237-238)*.

3.3   Interview analysis results

As the most important driving factor of Containerships strategy, Laaksonen mentioned environmental friendliness as a tenet to be understood and backed by all levels of the organisation. This seems to have been successful, since when asked of Containerships strategy, the first understanding mentioned by Juelich was the LNG strategy. Other strategic visions understood by Juelich comprise of flexible operations, door to door service improvement and the core ownership structure granting efficiency in organisational decision making. From this can be deduced that the vision of the top managers is indeed shared on the lower levels, though an interesting mention is that the owner-

ship structure is actually something to be dissolved to central authority only. This point is also mentioned by Laaksonen by admitting that structural change is still ongoing.

By referring to the operational structure layout, local office responsibilities range from customer service and sales to available terminal, land and sea operations. In Lübeck these responsibilities stand mostly with customer service and supervising sales in Duisburg, but also cooperation with outsourced terminal operations and trucking operations based in Rotterdam. This standing has been identified by Juelich both strategic and highly improvable in the future and in his own words: *"Lübeck is one of the main gates from Germany to Finland. We are still a small (and) light here but growth can and will be expected as there are huge volumes moved by the Ro-Ro carriers like TRAFE and Finnlines. Keeping in mind the new vessel orders Lübeck is a potential port with potential growth."* This statement coincides with the strategic visions given by the CEO, suggesting a successful strategic process.

The successful communication of strategy throughout layers should be considered a critical target for a company to be efficient. Within containerships the structural characteristics provided by the matrix approach offer a chance to do this by implementing levels of team meetings on set time intervals. The top vision of the meetings is to improve the flow of information, encourage idea sharing between managers and improve overall trust between layers, with a belief that face to face meetings serve to get employees to know each other, lowering barriers to share information and ideas *(Laaksonen)*. These meetings schedules have been identified and adapted by Lübeck office as well, having received a detailed answer of reporting and meeting responsibilities to the level of local team activities. In regards of a structural view, these communication responsibilities identified by Juelich are according to the matrix, the required process and regional reporting lines seem to be memorised as intended.

As the biggest shortcoming in the structural layout was identified in horizontal communication, multiplied in severity when reaching local levels. Juelich identified a nonfunctioning communicational link between local offices in different regions, causing a slowing down of processes when both local levels had to contact their respective regional managers to solve problems arising. Happening on more than one occasion, a point of structural inefficiency could be identified. When mentioned in the interview

with the CEO, a short discussion on the reasons and elements emerged. This structural inefficiency is seemingly part of the still improving structural coherency within Containerships, with influences from a relatively new set of managers, and organisation. Both interviewees however seemed convinced of a positive future as after time passes with meetings held and communicational patterns settling to a routine, common cooperation becomes easier.

While some obstruction can be seen in adaptation of top management ideas and views due to culture or not yet formalised structural relationships, many of the main parts of strategic vision seem to have reached the lower levels of the organisation. These problems in cultural habits to hierarchy, young managers, still evolving structure and lack of communication are likely to improve with actions taken and time in adapting. The CEO suggested that by splitting the structure to main business processes, followed by regional control, the strategy can be funnelled and localised step by step, strong leadership making sure that each level knows what they need to know to stay productive, but not too much to avoid confusion. A suggestion exists that in splitting of responsibilities on a managerial level also improves overall innovativeness through broader areas of responsibility *(Stern & Deimler p. 294-295).* In general the results of comparing data gained in interviews to strategic and structural data seem to suggest a mostly positive correlation in the structural and strategic planning & process.

4   Conclusion

By interviewing the CEO of Containerships group and the local branch manager in Lübeck, a practical view on the theory on structure and strategy was sought after. The overall structure and strategic measures that were acquired from the internal data-bases of Containerships were used as a reference point when preparing questions, and the general data from secondary research proved validity to the findings. In general, the structure and strategy of Containerships aims to promote values of flexibility, customer focus and cooperation within the organisation.

The general research on structural design provided an interesting initial approach to open up the details connecting structure to strategy. The research seems to suggest that a trend towards fluidity and flexibility in internal processes has been made from strict bureaucratic structures. Many sources argue that especially advancements in IT have caused markets to change at an increasing rate, causing demand for this afore-mentioned flexibility in structure to better tie company strategy into practice. This finally suggests that strategy can be seen to supersede mere structural design in importance; that structure should follow strategy and thus coinciding influences of both.

To be able to create a strategy and succeed a strategic competition requires preparation and an ability to identify threats and opportunities. This can be helped with using general analysis tools, offering set standards to be filled in analysis, though an informed and inspired set of strategic thinkers improve the outcome. A prominent argument for coping with volatile change in industries seems to lie in implementing efficient learning standards in form of fluent flow of information and encouraging idea sharing. A learning organisation is arguably more efficient in identifying trends for strategy creation, after which a fluent structure of communications can be created to bring about to other organisational levels.

What was identified in implications of strategy and structure being tied together was also found to be strengthened by the characteristics in Containerships. The structural change brought about in the company started with a requirement of abolishing old strict structures to increase flexibility and regional autonomy. A strategic vision has prevailed in localising services in benefit of customers and improving overall opera-

tions, which led to a split responsibility matrix structure to better facilitate each process on a strategic vision, yet emphasising local flexibility. This structure within Containerships is held together by a communicational pattern of face to face meetings, serving to encourage idea and information sharing, epitomising implementation of earlier mentioned critical learning tools.

Finally the research suggests that within Containerships the strategy is created by a core of top managers, active to funnel relevant process details, goals and instructions down to local levels, to be an effective structure combined with network elements. Comparing the operational, strategic and structural characteristics of Containerships theory to practice through interviews, a mostly positive relevance was found between structure and strategy. The views and ideas of the CEO representing top management coincided in many parts with the understanding of strategic goals and visions of the branch manager in Lübeck, suggesting that the structure does support adoption of strategy within Containerships.

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Interview questions

- What are the main reporting lines/ responsibilities of Lübeck?

- How do you feel the reporting lines function? (Clear/unclear)

- What are the operations and responsibilities under lübeck?

- In short, what is your understanding of the CSG* strategy?

- In what ways do you feel Lübeck contributes to the overall strategy?

- How do you feel the structure helps communicate the strategy?

- In your opinion, what are the biggest advantages of the current structure?
  - Disadvantages?

- How strong do you feel the lateral communication lines are:
  - Between regions (E.G. Region West- Region Baltics)?
  - Between operations (E.G. Customer service Germany- Customer service Baltics)?

- How well do you feel the cooperation functions in CSG?

- How flexible do you feel Containerships is in face of problems?
  - on a strategic scale?
  - on a local/ regional scale?

- How successful do you feel CSG has been in identifying strategic goals?

Containerships organisational structure

CONTAINERSHIPS

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CS GROUP

REGIONS
- Nordic
- Russia
- Baltics
- West
- UK&IE
- MED

BUSINESS DEVELOPMENT
- IT
- HR
- HSEQ

OPERATIONS
- Sea
- Land
- Costing/Pricing

COMMERCIAL
- Sales & Marketing
- Customer Service

FINANCE
- Accounting
- Group reporting
- Business Control