

## strategic business unit

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A strategic business unit (SBU) is an organizational subunit that acts like an independent business in many major respects, including the formulation of its own strategic plans and its own marketing strategy. An SBU may share its parent organization's corporate identity or develop its own brand identity, depending on the degrees of freedom allowed to the management of the division.

A one-fit-all strategic approach would be inadequate in large, diversified organizations and multinational companies. Dividing the corporation's operations into SBUs increases efficiency and market focus and efficiently organizes the business portfolio of a broadly diversified company.

SBUs are found to be a viable form of organizational sectioning because they ensure that products and product lines are given specialized focus, as if they were developed and marketed by an independent company. Products with smaller sales volumes and profit margins than a corporation's top performers would still be nurtured and promoted by its SBU. The division would focus on a market sector that may be small in comparison but still constitutes a profitable market niche.

The SBU is driven by its own mission, which would be independent of that of the parent firm and the other SBUs in the organization. It would operate in a competitive market space that is separate from other divisions in the corporation. SBUs would typically prepare their own financial, strategic, marketing, and sales plans. Resources in the main areas of operation, such as human resources, procurement and outsourcing, are managed by the SBU.

The advantage of operating through an SBU is that it would create a strategically focused

management structure that is not distracted by the wider product portfolio of the corporation. Strategic action is customized to a smaller operation increasing efficiency, specialization, and relevance. From a human resource point of view, it makes the task of managerial performance appraisal more defined and more objective. An SBU would be able to apportion corporate resources to products in the early stage of their life cycle, when profits are low and growth potential is high.

Corporations may experience some disadvantages when organizing their divisions through an SBU structure. Some SBUs may be created for administrative convenience, such as cost management, without a separate mission and vision. In such cases, the SBUs tend to lack the ability to develop their own markets. Separate units may create an additional layer of top management, which are expensive and difficult to manage. SBUs require coordination from head office to align with the group's overall objectives. The best results for strategy formulation for business units are derived in companies with a collaborative approach.

See also *efficiency*; *M-form (multidivisional structure)*; *matrix structure*; *N-form*; *organizational structure*

## Bibliography

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