

# International Management



## **CHAPTER 8**

### **ORGANIZATION STRUCTURE AND CONTROL SYSTEMS**

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# Learning Objectives

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8.1 To understand the importance of appropriate organizational structures to effective strategy implementation

8.2 To understand the structural changes necessary as the firm develops and changes strategies over time

8.3 To become familiar with the types of organizational designs suitable for the level and scope of internationalization of the firm

8.4 To understand emergent structural forms in the global economy

8.5 To understand the role of technology in the evolution of the networked structure and to appreciate the role of teams in achieving business goals

8.6 To emphasize the role of control and monitoring systems suitable for specific situations in the firm's international operations

# Learning Objective 8.1



**To understand the importance of  
appropriate organizational structures to  
effective strategy implementation**

# Organizational Structure

...a constant change...

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- ❖ Must change to accommodate a firm's evolving internationalization in response to worldwide competition
- ❖ Firm's structure must fit the strategy
- ❖ Organization's design should be contingency based. Some variables to be considered:
  - ❖ Firm's strategy, size, appropriate technology as well as the environment where the firm operates
  - ❖ Geographic dispersion as well as differences in time, language, cultural attitudes, technology, and business practices

# Organizational Change and Re-Design are Needed When:

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**New management with different goals and strategies**

**New strategic directions: growth, alliances, retrenchment; global; a change in the size of operations on a country, regional, or worldwide basis; or failure of foreign operations to grow in accordance with plans and expectations**

**Lack of competitiveness, failure to meet goals or capitalize on opportunities**

**Downturn in profitability or finances**

**Lack of innovation**

**An increase in overseas customer service complaints**

**Conflict between overseas and domestic staff**

**Underutilization of overseas manufacturing or distributing facilities**

**Clashes among divisions, subsidiaries, or individuals over territories or customers in the field**

**Breakdowns in communications within and among organizations**

**Duplication of administrative or personnel services, sales offices, account executives**

**Bottlenecks, too many reporting layers, and ill-defined executive responsibilities**

# Learning Objective 8.2 + 8.3



**8.2 To understand the structural changes necessary as the firm develops and changes strategy over time**

**8.3 To become familiar with the types of organizational designs suitable for the level and scope of internationalization of the firm**

# Kraft Foods



**2004 One  
Company  
Initiative**

**One  
integrated  
company  
with low  
cost  
strategy**

**2011 Niche  
Businesses**

**Split into two  
Companies:  
snack and  
grocery**

**30 years of turbulent ownership**



# Kraft's Post-Merger Integration and Reorganization

- ❖ In 2011, Kraft made a U-turn strategic change. It aims at capitalizing on niche businesses, Kraft sought two major acquisitions:
  - ❖ LU (biscuits) for \$7.6 billion in 2007
  - ❖ Cadbury PLC for \$19 billion in 2010
    - ❖ actively resisted the Kraft takeover.
    - ❖ Regulatory challenge: British Parliaments Commons Select Committee: “positive messages would have been considerably more convincing if conveyed directly to bodies such as ourselves”

December 2011 Kraft announced a split into two entities: “snack business” (\$32 billion) and “grocery business” (\$16 billion)

\*\* more focused\*\*

# Kraft Foods

“WARREN BUFFETT (aged 85/nor 92) says he likes to buy companies that are easy to understand and are performing well” (The Economist, Mar 28<sup>th</sup>, 2015).

- ❖ On March 25<sup>th</sup>, 2015, he bought Kraft Foods for 50 billion dollars, together with 3G Capital.
- ❖ 3G Capital excels at “zero-based budgeting”, cost-cutting - all expenses will be double-checked (e.g. corporate jets, coffee machines, printing costs...

This means, Ladies and Gentlemen....**Organizational Re-structuring AGAIN!**



# Evolution and Change in MNC Organizational Structures (1 of 2)

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**Many managers find it more difficult to develop the appropriate organizational structure than it is to develop the strategy.**

- ❖ Structural evolution/stages model
  - ❖ Aluminium Company of America (Alcoa)
    - ❖ Created smaller units
    - ❖ Linked geographically dispersed, but similar businesses (e.g., Brazil and Australia)



# Evolution and Change in MNC Organizational Structures (2 of 2)

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Typical ways to structure international activities

- ❖ Domestic structure plus export department
- ❖ Domestic structure plus foreign subsidiary
- ❖ International division
- ❖ Global functional structure
- ❖ Global product structure
- ❖ Matrix structure

# Evolution and Change in MNC Organizational Structures

## Domestic +

- \* Domestic structure plus export department

- \* Domestic structure plus foreign subsidiary

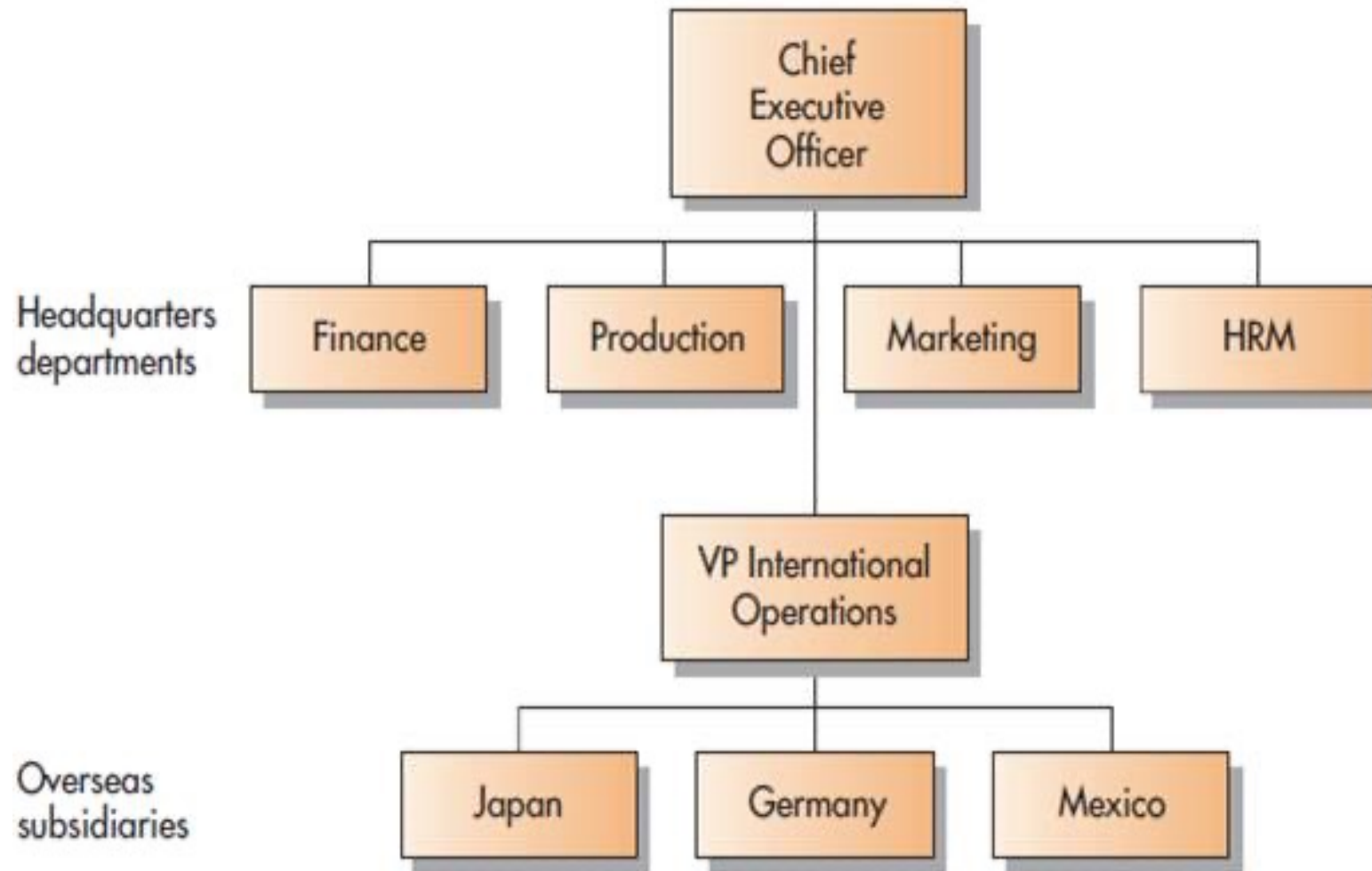
Typical ways to structure international activities

## Integrated Global Structures

- \* International division
- \* Global functional structure

- \* Global product structure
- \* Global Geographic structure
- \* Matrix structure

# Domestic Structure **Plus** Foreign Subsidiary



Pearson (2021, 2017, 2014)



# Integrated Global Structures (1 of 2)

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- ❖ Designed on the basis of the company's functions
- ❖ Allows for functional specialization and economies of scale
- ❖ Small firms with highly centralized systems

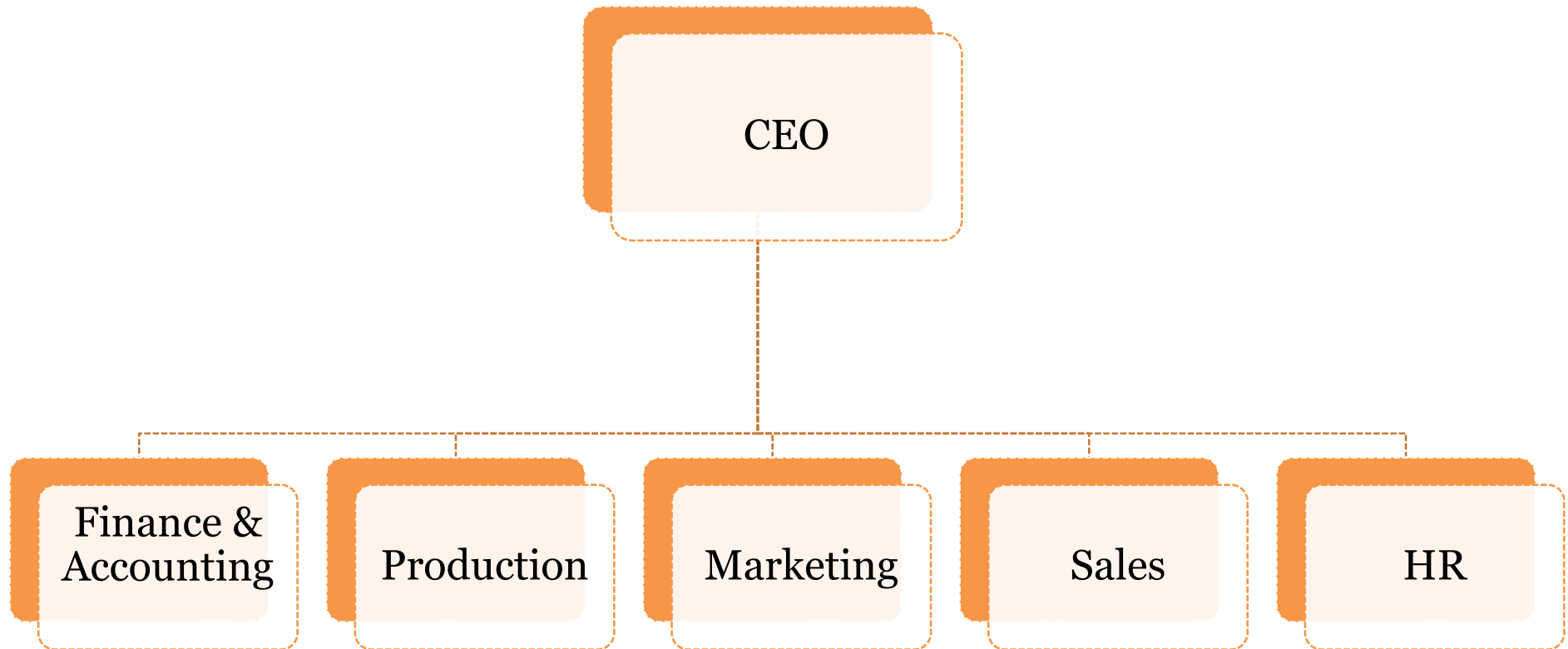
# Integrated Global Structures (2 of 2)

Global Functional Structure	International Division
<ul style="list-style-type: none"><li>• Designed on the basis of the company's functions (e.g., production, marketing, finance, etc.)</li><li>• Allows for functional specialization and economies of scale</li><li>• Small firms with highly centralized systems</li></ul>	<ul style="list-style-type: none"><li>• Organized along functional, product, or geographic lines</li><li>• Foreign subsidiaries are organized under the international division</li><li>• Subsidiary managers report to its head</li><li>• Example: Wal-Mart established an international division in the early 1990s to manage its global operations</li></ul>

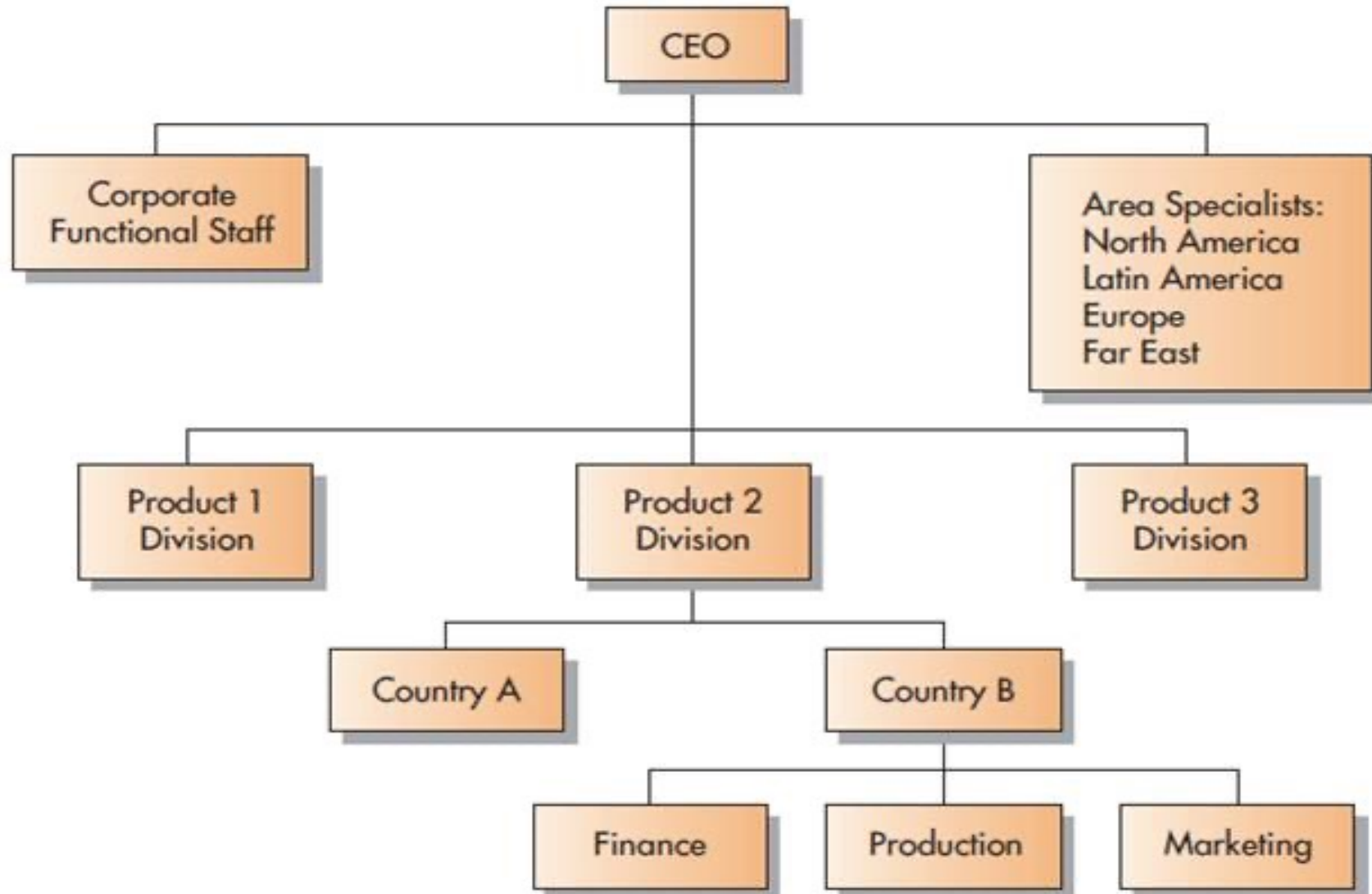


# Global Functional Structure

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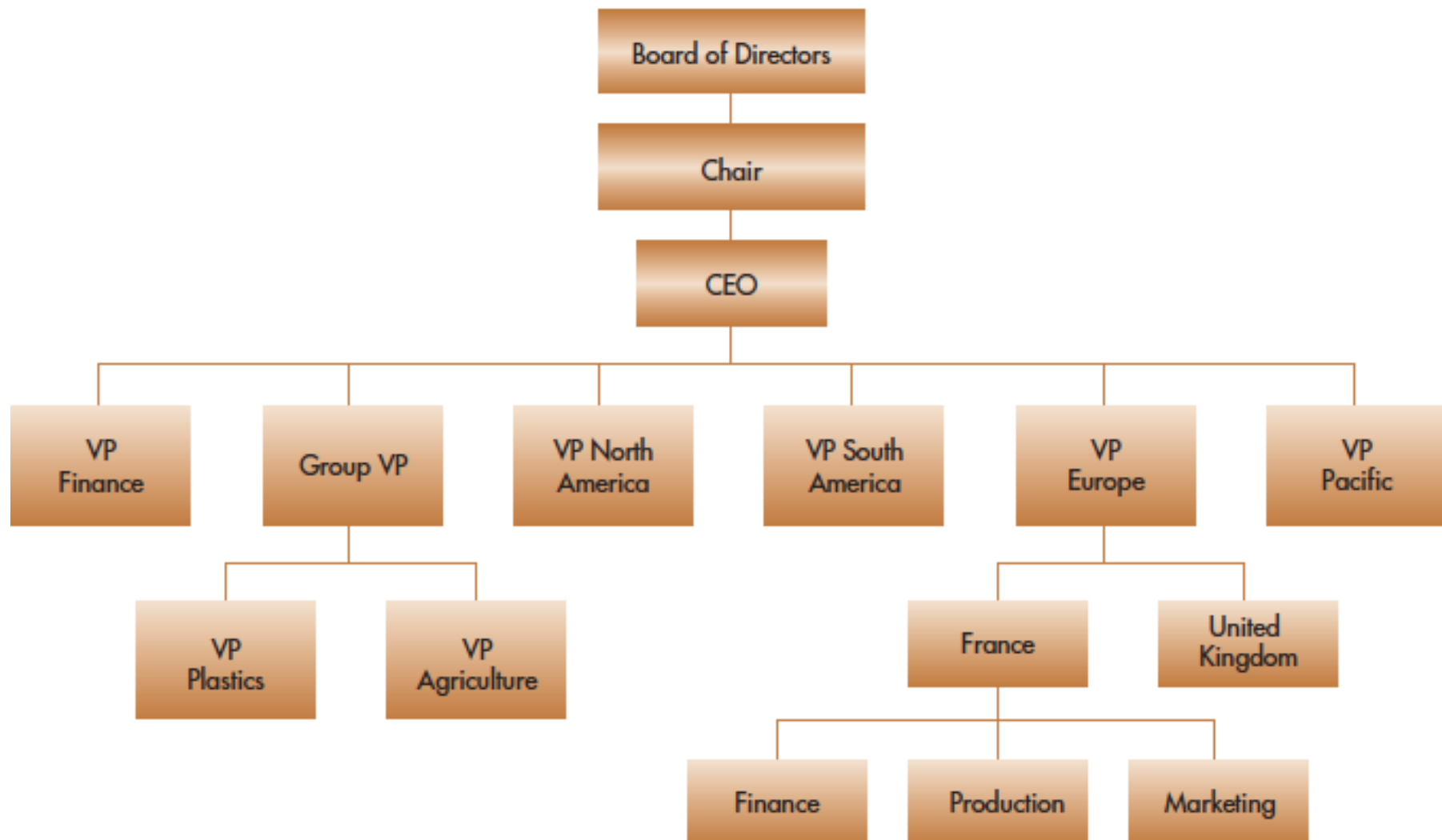


# Integrated Global Structures: Global Product (Divisional) Structure



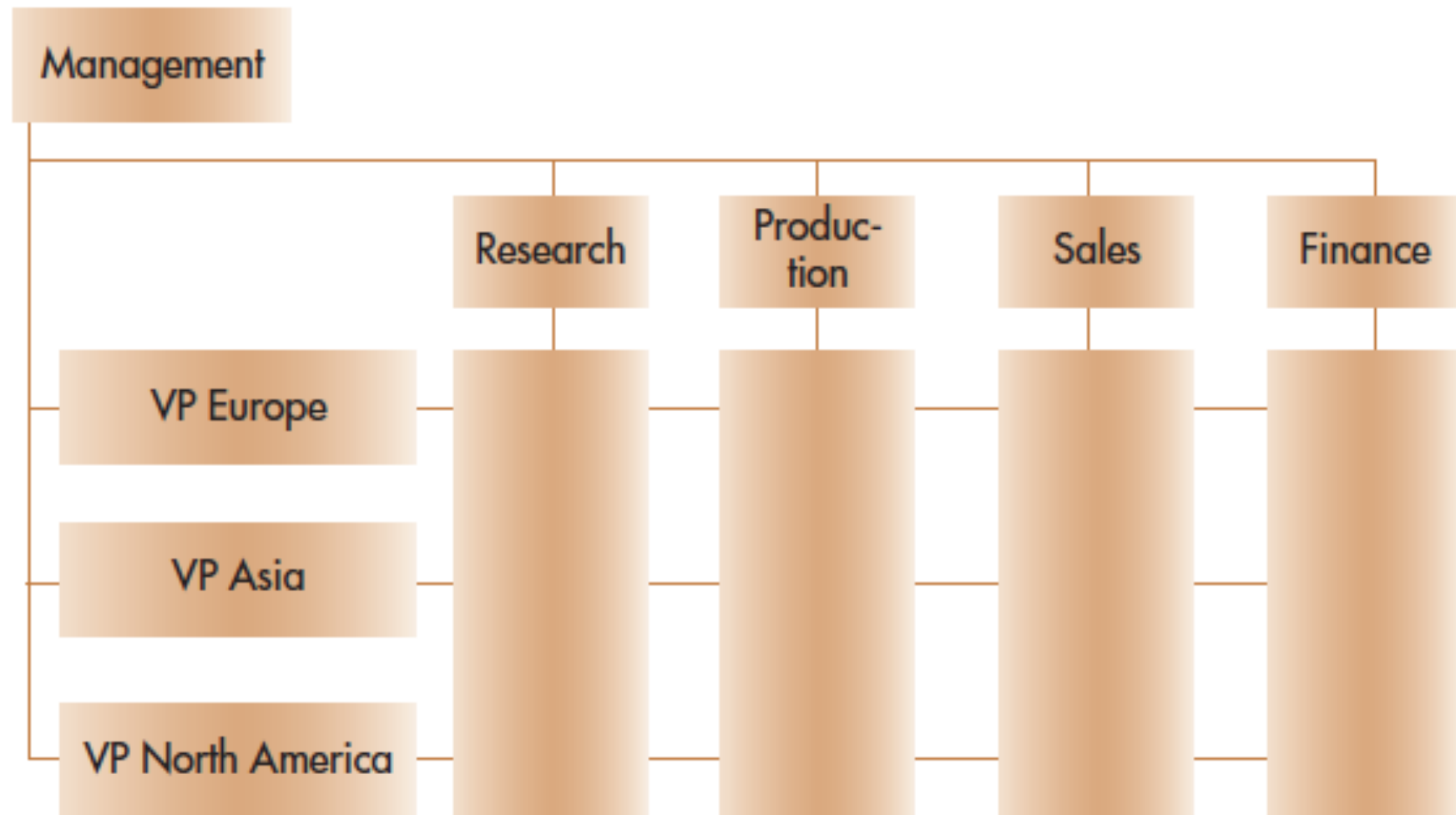
# Integrated Global Structures: Global Geographic (Area) Structure

**EXHIBIT 8-3** Global Geographic Structure



# Matrix Geographic Structure

**EXHIBIT 8-4** Matrix Geographic Structure



## Learning Objective 8.3

### Organizing for Globalization (1 of 2)

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#### Differentiation

- **Focusing on and specializing in specific markets**

#### Integration

- **Coordinating those same markets**

# Organizing for Globalization (2 of 2)

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## ❖ IBM

- ❖ Moved away from its traditional geographic structure to a global structure toward the use of centralized industry expert teams.

## ❖ Microsoft

- ❖ Reversed its divisional structure, disbanded its eight product divisions

# Example of Organizing to Globalization

## ABB Example

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The ABB logo is displayed in a large, bold, red font. The letters 'A' and 'B' are stylized with a grid pattern inside them.

Power and productivity  
for a better world™





# ABB





# Organizing for Globalization

**EXHIBIT 8-5** ABB's Old Versus New Corporate Strategy and Organizational Models During the Tenures of CEOs Percy Barnevik and Jürgen Dormann (1988–2004) and Fred Kindle (2005–2008) (Joseph Hogan took over in 2008)

## Old Corporate Strategy/Organizational Model

*(Percy Barnevik, 1988–2001)*

- Create a powerful global corporation
- Seek aggressive global expansion
- Design and implant matrix management structure
- Encourage entrepreneurship, decentralization, and multiculturalism in overseas subsidiaries
- Seek internal benchmarking and corporate parenting
- Keep local corporate identities while seeking globalization
- Seek cosmopolitan conglomerates
- Seek pan-European and global strategies
- Concentrate on Asian markets

## Net Output

- Global corporation
- Matrix structure
- Networking
- Horizontal structure

## New Corporate Strategy/Organizational Model

*(Jürgen Dormann, 2002–2004) and Fred Kindle to 2008*

- Revise core competencies
- Sell off non-core businesses
- Seek corporate restructuring
- Improve financial health of company
- Seek more regional strategies
- Resolve old disputes such as asbestos liabilities
- Simplify ABB's global structure; create two divisions (power technology and automation)
- Seek cost cutting; seek downsizing
- Unload unproductive units
- Improve credit rating

## Net Output

- Rationalization
- Simplicity
- Avoid non-core businesses
- Downsizing
- Save money
- Redesign the company

*Sources:* Based on *BusinessWeek*, *The Economist*, the *Financial Times*, and the *Wall Street Journal*. Updated by Helen Deresky, originally compiled by Syed Tariq Anwar, case study "ABB, Sweden: What Went Wrong?" in the 6th edition of this book.

# Example of Organizing for Globalization

## Global Geographic Structure



**Be  
Global –  
Act Local**

- Responding to local market structures and consumer preferences, along the globalization-regionalization continuum

**Centralization  
vs.  
Decentralization**

- Allows managers to act independently
- Keeps some centralized control, but decentralizes control of foreign subsidiaries



Levi Strauss achieves local coordination and the flexibility to respond to ever-changing fashion trends and fads in denim shading.

# Learning Objective 8.4 + 8.5



**8.4 To understand emergent/evolving structural forms in the global economy**

**8.5 To understand the role of technology in the evolution of the networked structure and to appreciate the role of teams in achieving business goals**

# Business Groups

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- ❖ An organizational form common in developed economies and emerging economies
- ❖ Tend to be held together by both formal and informal relationships
  - ❖ For example, South Korea has large family-run conglomerates, known as *chaebol*—strong influence on the economy and strong political influence

# Trends in Organizational Structure in the Digital Economy

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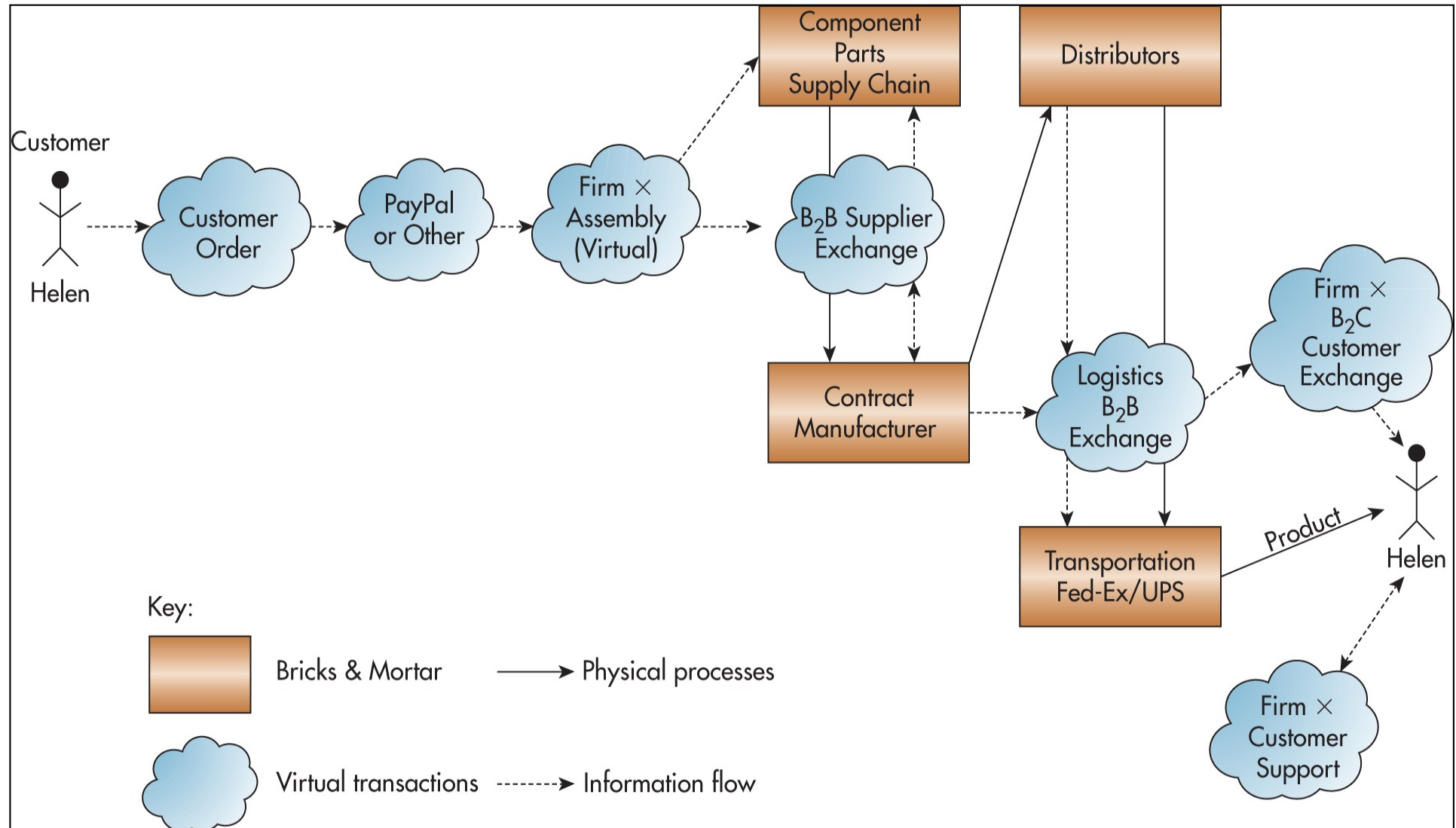
## ❖ Platform-Based Teaming

- ❖ Meta, Microsoft, IBM, etc.

## ❖ Centralization vs decentralization

- ❖ Changing Role of the Headquarters more towards a supporting role when local expertise is the key to the competition and success (e.g. Unilever India)
- ❖ Digital Organizational Readiness

# Global E-Corporation Network Structure (...prone to be born global...)





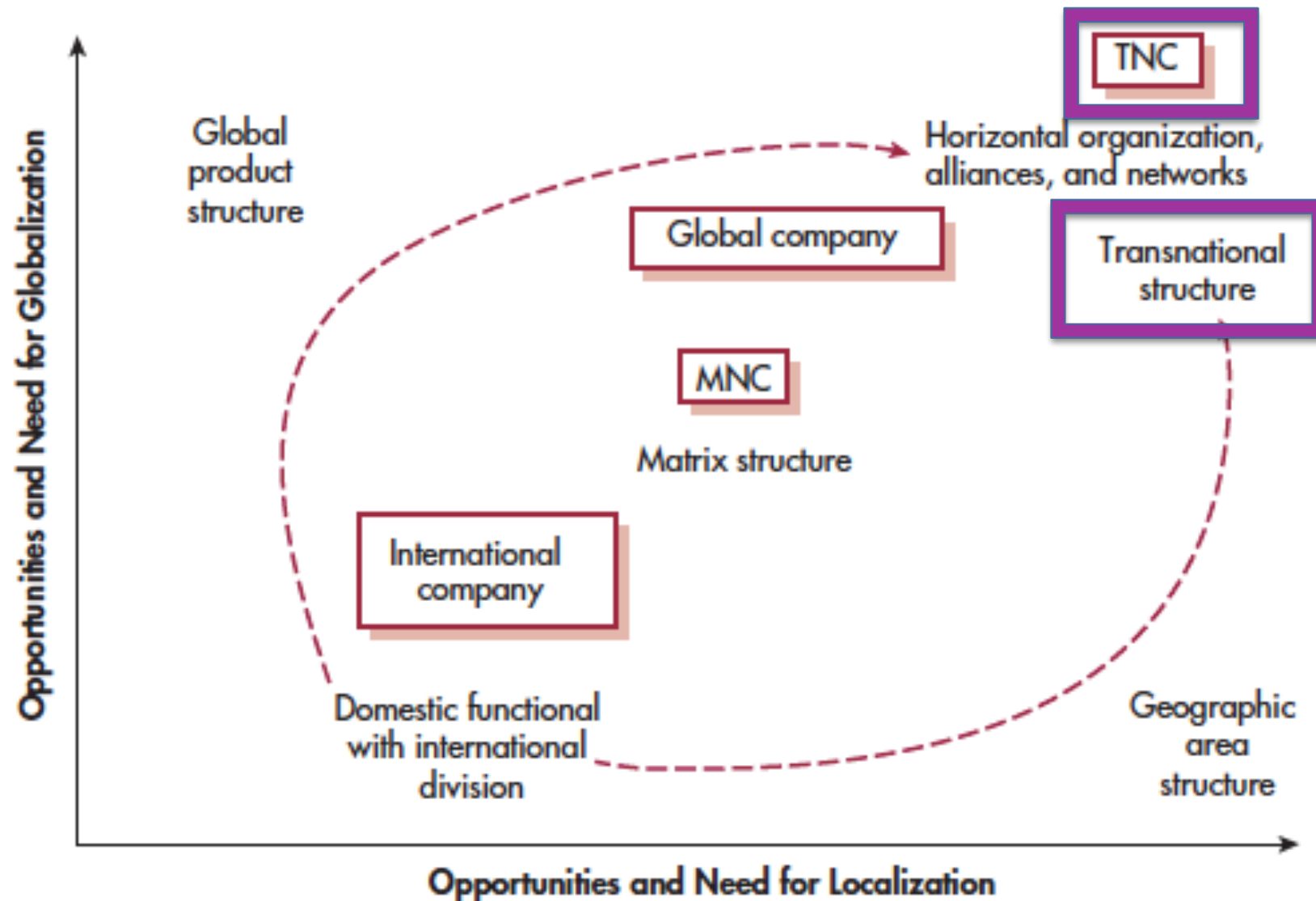
# The Transnational Corporation (TNC) Network Structure

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- ❖ Attempts to combine:
  - ❖ The **capabilities and resources** of a multinational corporation
  - ❖ The **economies of scale of a global corporation**
  - ❖ The **local responsiveness** of a domestic company
  - ❖ The ability to transfer technology efficiently typically of the international structure

# Choice of Organizational Form

**EXHIBIT 8-7** Organizational Alternatives and Development for Global Companies



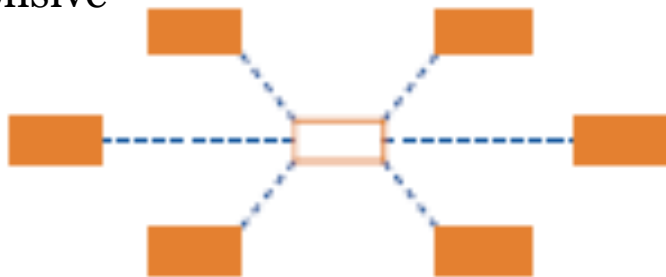


# Global Organization Models Compared

## Multinational

Highly decentralized and locally responsive

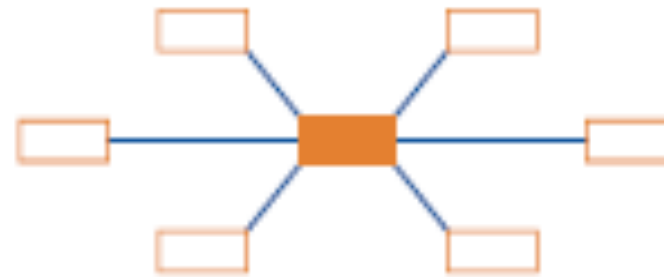
### Multinational



## Global

Highly centralized and focused on efficiency

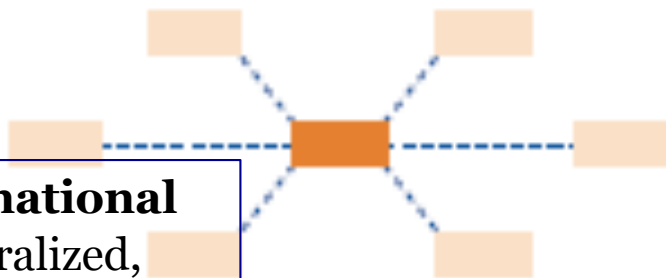
### Global



### International

## International

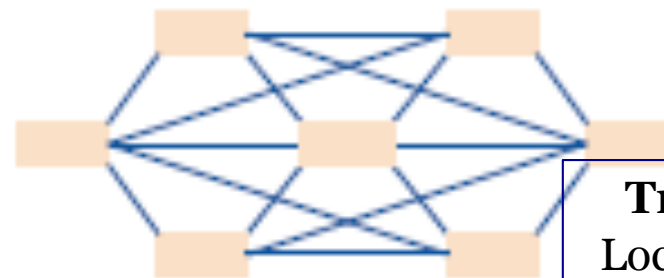
Centralized, focused on learning and sharing



### Transnational

## Transnational

Locally responsive, highly efficient, learning and sharing



Source:

- Martin, Lexy and Beaman. "leveraging HR Technology: From Global Saving to Transnational Value.2000. from Jeitosa Group International.

- CEDARCRESTONE (2012): Lessons Learned from Going Global: Two Organization Types Outperform! Highlights and Recommendations of Organizations Operating GloballyTaken from CedarCrestone 2011–2012 HR Systems Survey Results.

# Structural Variables to Implement Global Strategies

<b>Strategy</b>	<b>Organizational Structure</b>	<b>Delegation</b>	<b>Need to Coordinate</b>	<b>Organizational Culture</b>
Multidomestic/ multinational	Global area	To national unit	Low	Low impact
International	Intl. Division	Centralize core; rest to units	Medium	Medium
Global	Product Group	Locate where globally optimum	High	Important
Transnational	Global Matrix	Centralized and decentralized	Very high	Crucial

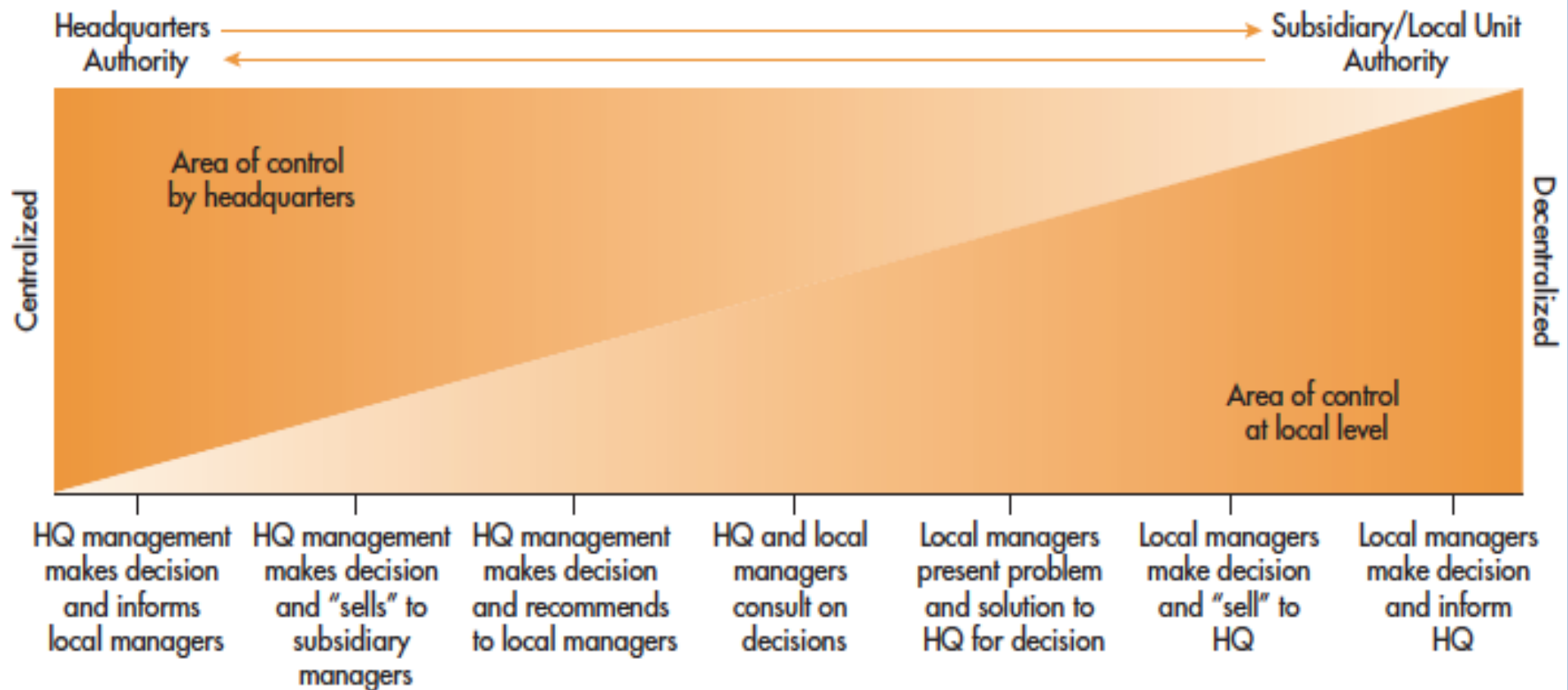
## Learning Objective 8.6



**To emphasize the role of control and monitoring systems suitable for specific situations in the firm's international operations**

# The Continuum of Centralized and Decentralized Decision Making

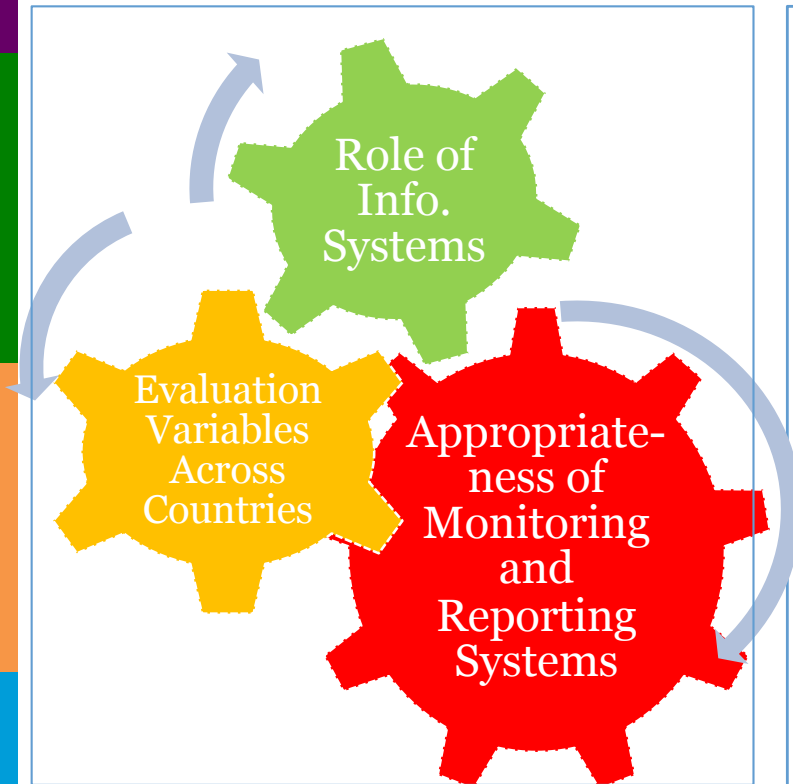
**EXHIBIT 8-10** Locus of Decision Making in an International Organization



# Control Systems for Global Operations

Direct Coordinating Mechanism	Indirect Coordinating Mechanism
<ul style="list-style-type: none"><li>• McDonald's in Moscow<ul style="list-style-type: none"><li><b>a) Problem: quality control</b></li><li><b>b) Solution: built processing plant in Moscow and provided managerial training</b></li></ul></li><li>• Other options: visits by head-office personnel and regular meetings</li></ul>	<ul style="list-style-type: none"><li>• Examples: Sales quotas, budgets, and financial tools and reports</li><li>• Three financial statements<ul style="list-style-type: none"><li><b>a) One for accounting standards in host country</b></li><li><b>b) One for the standards in the home country</b></li><li><b>c) One for consolidation</b></li></ul></li></ul>

# Managing Effective Reporting and Monitoring Systems



- “US companies use far more specific functional reports than do German or Japanese MNCs”
- “US companies use more formal communication and coordination processes as compared to Japanese companies

## Reporting systems require sophisticated information systems

- accurate and timely information
- Research by Neghandi and Welge indicates that US companies use far more specific functional reports than do German or Japanese MNCs.
- less developed countries.
- Internal & External Information System for accounting, supply chain management, ERP, M&S, R&D, etc.

Evaluate the performance of foreign affiliates because performance data is not necessarily comparable across countries. **For example, considerable inflation**, which is beyond the manager’s control, can have a downward effect on profitability

## To ensure meaningful comparison:

- to adjust financial statements for **uncontrollable variables** particular to each country where a subsidiary is located.
- To take **nonfinancial measures into account**: market share, productivity, sales, relations with the host country government, public image, employee morale, union relations, and community involvement.

# Summary

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- An organization must be designed to facilitate the implementation of strategic goals, reflects its international entry strategy and changes over time
- MNCs can be regarded as inter-organizational networks
- Transitional structure allows a company to “be global & act local” by using decentralized networks
- Indications of the need for structural changes include, inefficiency, conflicts among units, etc.
- Appropriate monitoring systems must be in place