

Introduction to Business 2

Principles of organization in international companies: International organizational structures as coordination mechanism

International Business Management

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Recapitulation from the last week

- ↘ Describe organizing as a management function and the difference between formal and informal organization structures.
- ↘ Explain the contingency perspective on organizational design
- ↘ Identify the traditional organizational structures, and the strengths and weaknesses of each.
- ↘ Explain how organizational designs are changing in the modern workplace.

Learning objectives

- ↘ Describe the effects of downsizing on organizational structures and employees.
- ↘ Analyze the behavioral implications of different organizational designs.
- ↘ Link organizational structure with the strategy

What Is Organization Structure

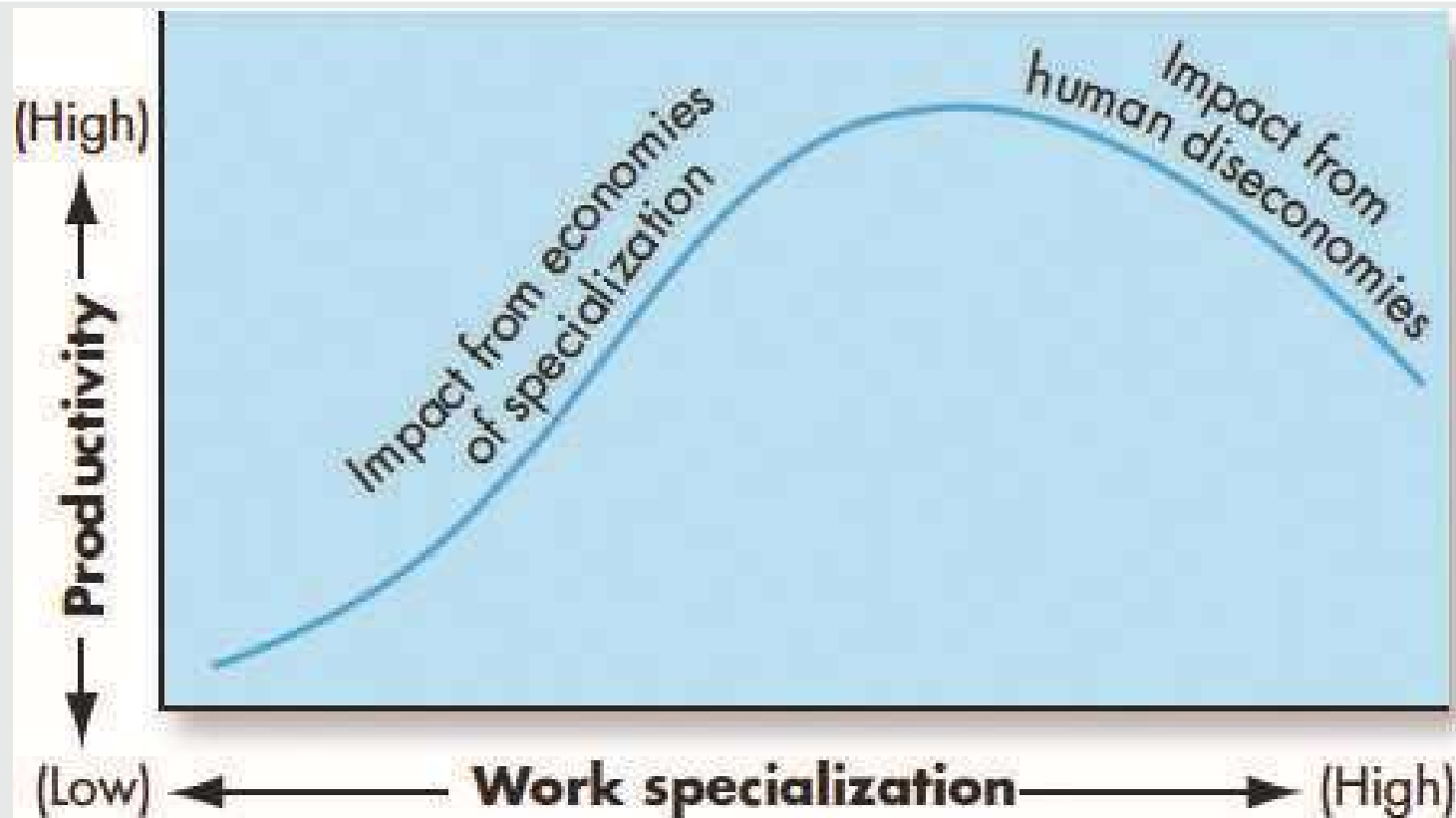
Organizational Structure:

Defines how job tasks are formally divided, grouped, and coordinated

↳ Key elements:

1. Work specialization
2. Departmentalization
3. Chain of command
4. Span of control
5. Centralization and decentralization
6. Formalization
7. Boundary spanning

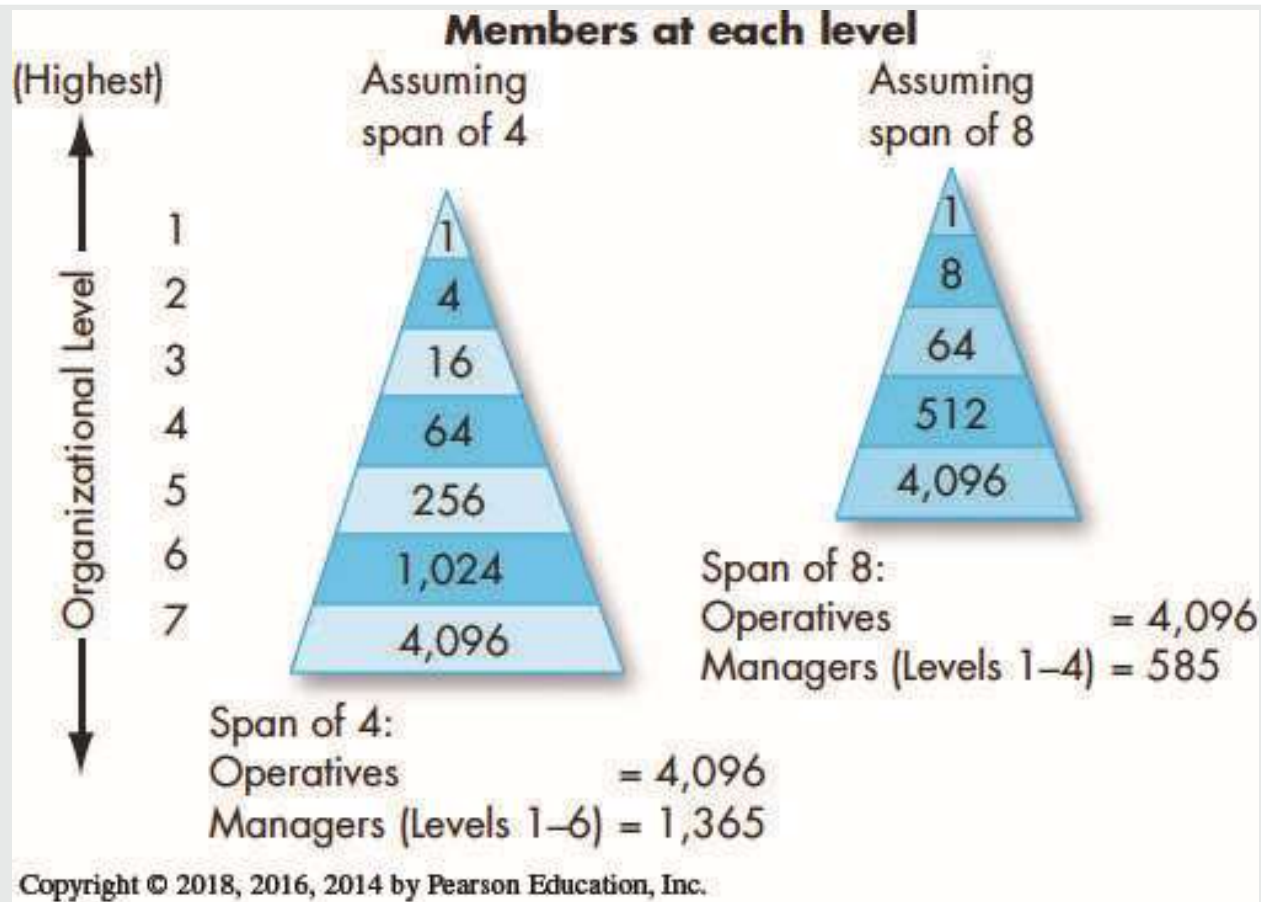
Work Specialization Economies



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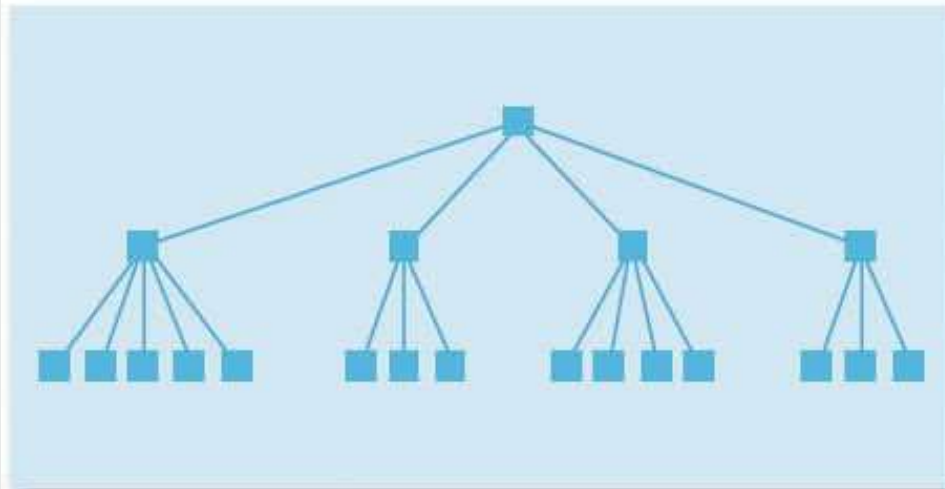


Contrasting Spans of Control



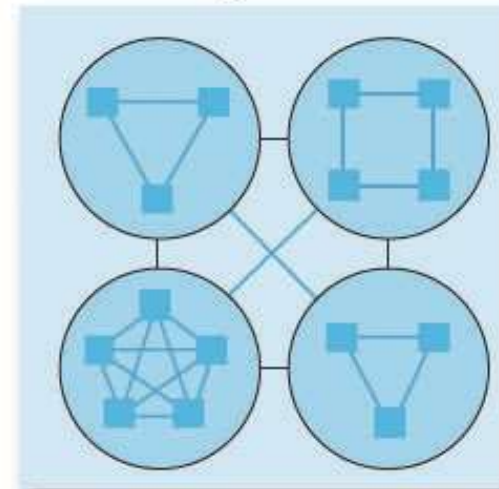
Organizational Design Models

The Mechanistic Model



- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

The Organic Model



- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization

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The Leaner Organization: Downsizing

↳ **Downsizing:**

A systematic effort to make an organization leaner by selling off business units, closing locations or reducing staff

- ↳ Controversial because of the negative impact on employees
- ↳ Impact on organizational performance has been very controversial

Determinants of Structure

↳ **Organizational Strategy**

- ↳ **Innovation strategy:** introduce new offerings-prefer organic structures
- ↳ **Cost-minimization strategy:** cost control-prefer mechanistic structures
- ↳ **Imitation strategy:** minimal risk and maximum profit-both structures used

Optimal Structural Option

Strategy	Structural Option
Innovation	Organic: A loose structure; low specialization, low formalization, decentralized
Cost minimization	Mechanistic: Tight control; extensive work specialization, high formalization, high centralization
Imitation	Mechanistic and organic: Mix of loose with tight properties; tight controls over current activities and looser controls for new undertakings

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More Determinants of Structure

↳ **Organization Size**

↳ Move toward mechanistic structure as size increases

↳ **Technology**

↳ Routine activities prefer mechanistic structures, non-routine prefer organic structures

Still More Determinants of Structure

✚ **Environment**

- ✚ Dynamic environments lead to organic structures
- ✚ Capacity
- ✚ Volatility
- ✚ Complexity

✚ **Institutions**

- ✚ Act as guidelines for appropriate behavior

Organizational Designs and Employee Behavior

- ↳ Cannot generalize any link between structure and performance
- ↳ Consider employee preferences for:
 - ↳ Work specialization
 - ↳ Span of control
 - ↳ Centralization
 - ↳ Predictability versus autonomy
- ↳ National culture influences organizational structure
 - ↳ High power distance cultures accept mechanistic structures



In a classic study of large U.S. corporations such as DuPont, General Motors, Sears and Standard Oil, **Alfred Chandler** concluded that **structure follows strategy**

changes in corporate strategy lead to changes in organizational structure

- ↘ New strategy is created
- ↘ New administrative problems emerge
- ↘ Economic performance declines
- ↘ New appropriate structure is invented
- ↘ Profit returns to its previous level

Reengineering and Strategy Implementation

↳ **Reengineering**

- ↳ the radical redesign of business processes to achieve major gains in cost, service or time
- ↳ effective program to implement a turnaround strategy

↳ Principles of reengineering:

- ↳ Organize around outcomes, not tasks
- ↳ Have those who use the output of the process perform the process
- ↳ Subsume information-processing work into real work that produces information
- ↳ Treat geographically-dispersed resources as though they were centralized
- ↳ Link parallel activities instead of integrating their results
- ↳ Put the decision point where the work is performed and build control into the process
- ↳ Capture information once and at the source

Six Sigma

↳ **Six Sigma**

- ↳ analytical method for achieving near perfect results on a production line
- ↳ emphasis is on reducing product variance in order to boost quality and efficiency

↳ **Lean Six Sigma**

- ↳ includes the removal of unnecessary steps in any process and fixing those that remain

Process of Six Sigma

1. *Define* a process where results are poorer than average
2. *Measure* the process to determine current performance
3. *Analyze* the information to pinpoint where things are going wrong
4. *Improve* the process and eliminate the error
5. *Establish controls* to prevent future defects from occurring

Designing Jobs to Implement Strategy

↘ **Job design**

- ↘ the study of individual tasks in an attempt to make them more relevant to the company and to the employees

↘ **Job enlargement**

- ↘ combining tasks to give a worker more of the same type of duties to perform

↘ **Job rotation**

- ↘ moving workers through several jobs to increase variety

↘ **Job characteristics**

- ↘ using task characteristics to improve employee motivation

↘ **Job enrichment**

- ↘ altering the jobs by giving the worker more autonomy and control over activities

Implications for Managers

- ↘ Specialization can make operations more efficient, but excessive specialization can create dissatisfaction and reduced motivation.
- ↘ Avoid designing rigid hierarchies that overly limit employees' empowerment and autonomy.
- ↘ Balance the advantages of remote work against the potential pitfalls before adding flexible workplace options.
- ↘ Downsize your organization to realize major cost savings, and focus the company around core competencies-but only if necessary because downsizing can have a significant negative impact on employee affect.
- ↘ Consider the scarcity, dynamism, and complexity of the environment, and balance the organic and mechanistic elements when designing an organizational structure.
- ↘ When you change the strategy, you have to adjust the organizational structure.

Thank you!

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