CHAPTER SIX

DESIGNING ORGANIZATIONS FOR THE INTERNATIONAL ENVIORNMENT

CHAPTER OVERVIEW

This chapter explores how managers design the organization for the international environment. Reasons for expanding internationally are provided along with the stages of international development and the use of strategic alliances. The chapter examines global strategic approaches and the application of various structural designs for global advantage as well as specific challenges global organizations face and how they cope with them. Finally the *transnational model* is explained.

Entering the Global Arena

The number of companies doing business on a global scale is increasing and the awareness of national borders decreasing. Global experience at the top has become so important to organizations because the world is developing into a unified global field, and companies need leaders with a global outlook.

Motivations for Global Expansion

By going global companies can realize

- **Economies of Scale.** Building a global presence expands an organization's scale of operation, enabling it to realize economies of scale through large volume scale.
- **Economies of Scope**. Scope refers to the number and variety of products and services a company offers, as well as number and variety of regions, countries, and markets it serves. Having a presence in multiple countries provides marketing power and synergy compared to the same size firm that has presence in fewer countries.
- **Low-cost Production Factors**. The mayor force motivating global expansion relates to factors of production especially lower-cost labor. Organizations have gone international to obtain lower costs of raw materials, of labor, of capital, sources of cheap energy, reduced government restrictions, or other factors that lower total production costs.

Stages of International Development

As a company evolves toward full-fledged global operations, they tend to go through four stages :

- ***Domestic* stage** means that the company is predominantly domestically oriented, but managers are developing initial international involvement, often to increase market potential.
- ***International (Multidomestic)*** stage means that exports are taken seriously and that the company deals with the competitive issues of each country separately.
- ***Multinational*** means that it has marketing and production facilities in

many countries, worldwide access to capital, and has more than one-third of its sales outside the home country.

- ***Global* stage** means that the company transcends any single country and does not identify with a single home country.

Global Expansion through International Strategic Alliances
International strategic alliances offer one way to get involved in international operations.
Licensing agreements allow a company to use the technology or name of another. **Joint ventures** are separate entities created with two or more active firms as sponsors.
Consortia are groups of independent companies— including suppliers, customers, and even competitors—that join together to share skills, resources, costs, and access to one another's markets.

Designing Structure to Fit Global Operations

Structure must fit the situation by providing sufficient information processing for coordination and control while focusing employees on specific functions, products, or geographic regions. Organization design for international firms follows this logic, with special interest in global opportunities.

Model for Global versus Local Opportunities
The model to fit organization structure to international advantage shows the structure that may be most appropriate for the firm that is attempting to develop a particular international strategy.
Globalization strategy. When forces for globalization integration are high, it means that product design and advertising strategy are generally standardized throughout the world (obviously, some key translations would occur even in the globalization strategy). Economic and social changes, including a backlash against huge global corporations, have prompted consumers to favor local products.
Multidomestic strategy means that competition in each country is handled independently of competition in other countries. A multidomestic strategy would encourage product design, assembly, and marketing tailored to the specific needs of each country. Different global organization designs are better suited to either global standardization or national responsiveness.

International Division. When a company is low with respect to developing either a globalization or multidomestic strategy, simply using an **international division** with the domestic structure is an appropriate way to handle international business. The international division has a status equal to other major departments, and has its own hierarchy to handle international matters such as sales or opening subsidiary plants.

Global Product Division Structure. Global product structure means that the product divisions take responsibility for global operations in their specific product area. This structure works well with the globalization strategy, but often product divisions ignore certain countries, and do not find coordination comes naturally, and they may even compete in some countries. The use of country coordinators with a clearly defined role can overcome these problems.

Global Geographic Division Structure. Global geographic structure means that each region reports directly to the CEO and has full control of functional activities in its geographical area. Although this structure lends itself easily to exploiting opportunities for regional competitive advantages, problems may result from the autonomy of each regional division. It is difficult to plan on a global scale because each division acts to meet only the needs of its region. It is difficult to introduce products developed offshore into domestic markets, and there is often duplication of line and staff managers across regions.

Global Matrix Structure. The global matrix structure is similar to the domestic matrix, although distances are greater and coordination is more complex. This complicated form would work best when there is balanced pressure for the interests of both product standardization and geographical localization and when coordination to share resources is important.

Building Global Capabilities

There are many instances of well-known companies that have trouble transferring successful ideas, products, and services from their home country to the international domain.

The Global Organizational Challenge

There are three primary segments of the global organizational challenge: greater complexity and differentiation, the need for integration, and the problem of transferring knowledge across a global firm.

- Movement into the international arena means **increased complexity**, demanding the development of a structure to fit the numerous countries in which it operates. Often this means more product differentiation which also means more internal organizational complexity.
- As organizations become more differentiated the **integration** or collaboration across the organizational units becomes more complex. This requires more time and resources to achieve.
- Organizations need to learn from their international experiences and exploit that learning to create and leverage global organizational knowledge. **Knowledge transfer** is hindered by language, cultural, and geographic distances; protection of one's own division rather than cooperation; viewing knowledge as power one unit does not want to give up; the reluctance to use knowledge from elsewhere due to pride; and the fact that much of this knowledge is not written down.

Global Coordination Mechanisms

Managers meet the global challenge of coordination and transferring knowledge and innovation across highly differentiated units in a variety of ways.

Global Teams. Also called *transnational teams,* global teams are work groups made up of multinational members whose activities span multiple countries. Some help organizations achieve global efficiencies; others help their companies become more locally responsive; and others contribute to continuous learning and adaptation on a global level. However, cultural and language differences can create misunderstandings, and resentments and mistrust can quickly sidetrack the team's efforts.

Headquarters Planning. In this approach, the global headquarters takes an active role in planning, scheduling, and control to keep the global organization working together and moving in the same direction. Without strong leadership, highly autonomous divisions can act like independent companies rather than coordinated parts of a global whole.

Expanded Coordination Roles. Creating specific organization roles can help to integrate all the pieces. Often the role of top *functional manager* is expanded to include responsibility for coordinating across countries. *Country managers* can coordinate across functions. The *network coordinator* coordinates information and activities related to key customer accounts. Benefits include: cost savings, better decision making, greater revenues, and increased innovation.

Cultural Differences in Coordination and Control

National value systems influence management and organizations. Hofstede identified dimensions of national value systems that vary across countries. Research by Project GLOBE (Global Leadership and Organizational Behavior Effectiveness) has extended Hofstede's assessment.

National Value Systems

High **power distance** means that people accept inequality in power among institutions, organizations, and people whereas low power distance means they expect equality in power. High power distance organizations tend to be more hierarchical and centralized with greater control and coordination form the top.

High **uncertainty avoidance** means that members of a society feel uncomfortable with uncertainty and ambiguity and thus support believes that promise certainty and conformity. Low uncertainty avoidance means that people have a high tolerance for the unstructured, the unclear, and the unpredictable. A low tolerance for uncertainty tends to be reflected in a preference for coordination through rules and procedures.

Three National Approaches to Coordination and Control

There are three broad general patterns that illustrate cultural differences—centralized coordination in Japanese companies, European firms decentralized approach, and coordination and control through formalization in the United States.

Transnational Model of Organization

The transnational model exists for large multinational firms with subsidiaries in many countries that try to take advantage of both global and local advantages. The transnational model is a managerial state of mind, a set of values, a shared desire to make a worldwide learning system work, and an idealized structure for effectively managing such a system.

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Characteristics of a transnational organization:

- Assets and resources are dispersed worldwide into highly specialized operations that are linked together through interdependent relationships.
- Structures are flexible and ever-changing, operating on the principle of *flexible centralization*– centralizing some functions in one country and decentralizing them in another.
- Subsidiary managers initiate strategy and innovations which become strategy for the corporation as a whole.
- Unification and coordination are achieved through corporate culture and shared vision and values, and management style, rather than through formal structures and systems.

Design Essentials

- Three primary motivations for global expansion are to realize economies of scale, exploit economies of scope, and achieve scarce or low-cost factors of production such as labor, raw materials, or land.
- Organizations evolve through four stages: a domestic orientation, an international orientation, a multinational orientation, and a global orientation.
- Geographic structures are effective for organizations that benefit from a multidomestic strategy. A product structure supports a globalization strategy. Huge global firms might use a matrix structure. Many firms use hybrid structures.
- Global organizational challenges include: addressing environmental complexity through organizational complexity and differentiation, achieving integration and coordination among differentiated units, and implementing mechanisms for the transfer of knowledge and innovations.

- Diverse national and cultural values influence the organization's approach to coordination and control.
- Companies are moving toward the transnational model of organization, which is based on a philosophy of interdependence.

DISCUSSION QUESTIONS

1. Under what conditions should a company consider adopting a global geographical structure as opposed to a global product structure?

ANSWER: A global product structure should be considered when the company handles products that can be assigned to divisions that are technologically similar and can be standardized for worldwide production and marketing. This will provide economies of scale in both production and marketing of the product. If the products must be tailored to each country or market, this structure would be less appropriate.

2. Name some companies that you think could succeed today with a globalization strategy and explain why you selected those companies. How does the globalization strategy differ from a multidomestic strategy?

ANSWER: The companies that the students come up will vary. Multidomestic strategy means that exports are taken seriously and that the company deals with the competitive issues of each country separately. Globalization means that the company transcends any single country and does not identify with a single home country. Products and practices that work in any one country are used in other appropriate countries.

3. Why would a company want to join a strategic alliance rather than go it alone in international operations? What do you see as the potential advantages and disadvantages of international alliances?

ANSWER: Strategic alliances should be sought by companies wanting to get involved in international operations but have limited resources with which to accomplish their objective. They can take advantage of the country-knowledge and resources of other companies through the alliance and perhaps become more successful in their international involvement. Companies which want to limit their risk should also seek strategic alliances in order to share the risk.
Companies which are strong enough to enter the market internationally and can take the risk may wish to avoid international strategic alliances. Not only does such an alliance share the risk, but often the profits. It also tends to limit independence and freedom of the firm. Whether a company decides to try it alone or to seek an alliance is of course an individual choice. However, it is increasingly more difficult to be successful in international markets as a lone agent.

4. Do you think it makes sense for a transnational organization to have more than one headquarters? What might be some advantages associated with two headquarters, each responsible for different things?

ANSWER: Answers will vary, and this question can spark a lively debate. No. The transnational organization doe not need to have more than one headquarters because the company's executives are learning to manage a worldwide organization "as a network, not a centralized hub with foreign appendages. Since the units of a transnational organization network are far-flung, it would add complexity and confusion to have more than one headquarters. The transnational model creates an integrated network of individual operations that are linked together to achieve the multidimensional goals of the overall organization. Two headquarters might cause a breakdown in communication. With one headquarters, individual units still have autonomy and the ability to have an impact on other parts of the organization.

5. What are some of the primary reasons a company decides to expand internationally? Identify a company in the news that has recently built a new overseas facility. Which of the three motivations for global expansion described in the chapter do you think best explains the company's decision? Discuss.

ANSWER: By going global companies can realize economies of scale and exploit economies of scope—the number and variety of products and services it offers. Another reason for moving to global market is to take advantage of low-cost production factors, especially lower-cost labor. The companies that the students come up will vary as will their analysis of the motivations behind that expansion.

6. When would an organization consider using a matrix structure? How does the global matrix differ from the domestic matrix structure

ANSWER: The global matrix structure is most effective when forces for both global integration and for national responsiveness are high. It presents a complexity in the structure, and therefore should not be considered when either or both of those forces are low because it would impose unnecessary complexity on organizational activity. However, when the needs are present, the design can help the organization effectively match its structure to its strategy.

The international matrix has much in common with the inner workings of the domestic matrix, except for the fact that distances are greater--worldwide--and coordination is more complex. This means that decisions may take longer to make unless new communications technology is used to help overcome distance. It means, further, that factors of local conditions, legalities, and cultures must also be considered when running the organization. Structurally, the domestic matrix highlights managers for both functional areas and product or project areas, whereas the international matrix typically highlights managers for both regional areas and product or project areas.

7. Name some of the elements that contribute to greater complexity for

international organizations. How do organizations address this complexity? Do you think these elements apply to an online company such as MySpace that wants to grow internationally? Discuss.

ANSWER: The factors that contribute to greater complexity for international organizations include offering modified or different products, the need for integration, the problem of transferring knowledge across a global firm, and cultural differences. Organizations address this complexity by adapting the organizational structure to produce offerings complying with local tastes, culture, and laws.

8. Do you believe it is possible for a global company to simultaneously achieve the goals of global efficiency and integration, national responsiveness and flexibility, and worldwide transfer of knowledge and innovation? Discuss.

ANSWER: While this is certainly possible, it takes a lot of work. The company may have to give up some efficiency and have a little less integration to achieve the responsiveness and flexibility it desires. The company may learn that what makes it efficient in one country does not fit the culture of another country or is not allowed by local laws.

9. Compare the description of the transnational model in this chapter to the elements of the learning organization described in Chapter 1. Do you think the transnational model seems workable in a huge global firm? Discuss.

ANSWER: A corporate culture that is strong and fosters shared values characterizes both the learning organization and the transnational model; it is described in the text as the learning organization extended to the international arena. The transnational model has multiple centers, subsidiary managers who initiate strategy for the whole company, and coordination and control which is achieved through corporate culture and shared values. This type of structure may be the only workable structure in huge global firms that truly have subsidiaries in many countries that try to exploit both global and local advantages. When it is necessary to deal with multiple interrelated competitive issues, the complexities of even the global matrix structure are inadequate to carry beyond balancing simultaneous product and geographic needs. Simply due to the size of the organization, more restrictive types of structures would tend to slow down the organization and make it less competitive.