



Faculty of Business and Law



## **GSBS6481 International Business Strategy**

**Week 8: Organization of MNCs**

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## Outline

- Student presentations: Examples of MNEs organizational structures
- The strategy-structure relationship  
[Assignment Project Exam Help](https://powcoder.com)  
<https://powcoder.com>
- The integration–Responsiveness Framework:  
Four strategic choices  
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- Organizational structures of MNEs
- The three perspectives to organizational structures of MNCs



## Reference & Readings

- Peng, Mike W (2021), *Global Strategy*, 5<sup>th</sup> ed. USA: Cengage Learning.
  - Chapter 10 **Assignment Project Exam Help**

**Key concepts**      <https://powcoder.com>

- organizational structure **Add WeChat powcoder**
- global integration
- local responsiveness
- home replication strategy
- localization/multidomestic strategy
- global standardization strategy
- transnational strategy
- organizational design
- control mechanisms in multinational organization structures



## Examples of structures of global firms/organizations

- Accountable Now
  - World Banking Group
  - Panasonic
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## Student group presentations: Examples of MNCs organization structures

- A brief introduction of the company, its main businesses and the international coverage
- An introduction of the organizational structure as illustrated by an organizational chart (i.e. how the main businesses of the multinational company are organised internationally)
- Any additional remarks, e.g. reasons why the company set up such a structure, any changes in its structure in the past, and whether you think the structure fits its international business strategy



## The Strategy-Structure Relationship

- Organizational Structure
  - The firm's formal reporting relationships, procedures, and controls
  - Also known as *organizational design* or *organizational architecture*.
- Strategy and structure: A reciprocal relationship
  - Strategy drives organizational structure; structure can also enable and constrain strategy.
    - The fit can become a source of competitive advantage.



## MNEs confront two sets of pressures

- Pressures for global integration
  - To reduce costs - impetus for global integration of manufacturing
    - Key international competitors located where factor costs are low
  - Universal needs - consumer tastes in different countries are similar with regard to certain types of products
    - Create strong pressures for a global strategy
  - Global strategic coordination - response to global competitive threats



## MNEs confront two sets of pressures (cont'd)

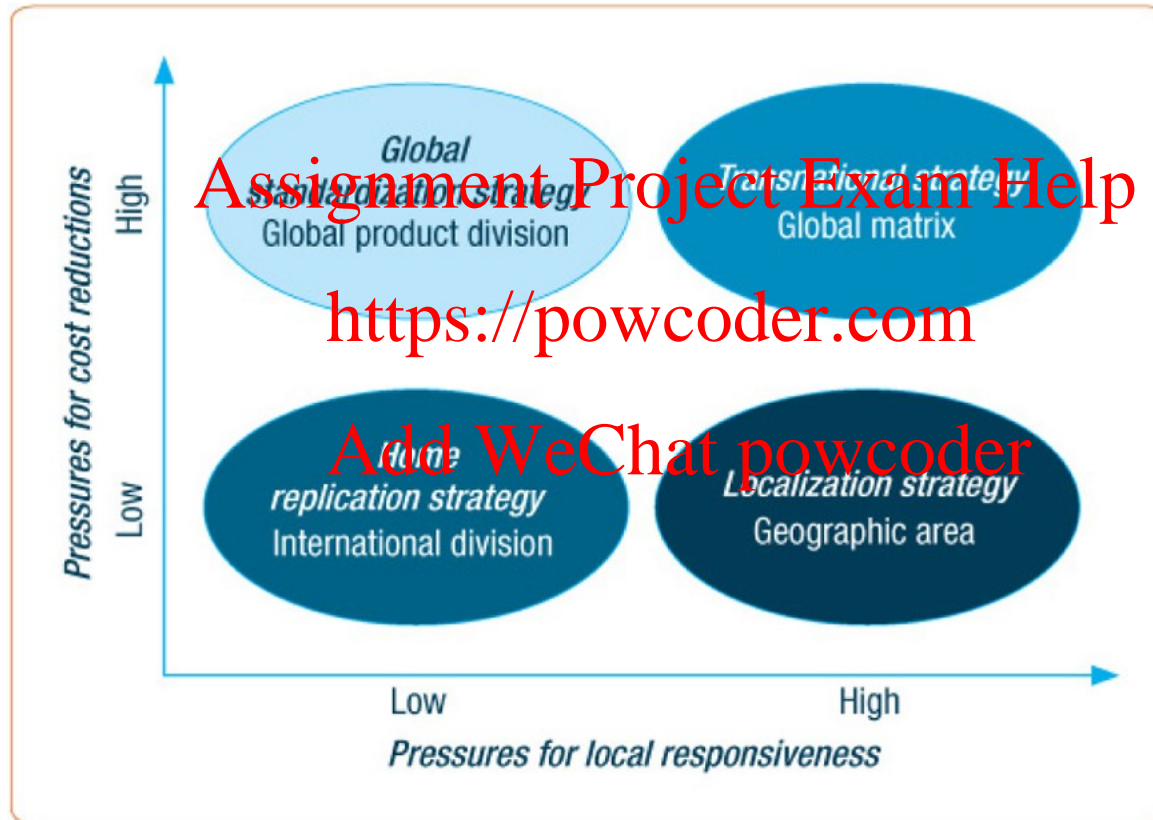
- Pressures for local responsiveness

- consumer tastes and preferences differ significantly among countries
  - requires customized product and/or marketing messages
- differences in traditional practices among countries
- differences in distribution channels and sales practices among countries
- economic and political demands imposed by the host government.





# The Integration–Responsiveness Framework: Four Strategic Choices





## Four Strategic Choices for MNEs

- **Home replication strategy** – a strategy that emphasizes the duplication of home country-based competencies in foreign countries
- **Localization (multidomestic) strategy** – a strategy that focuses on a number of foreign countries/regions, each of which is regarded as a standalone local (domestic) market worthy of significant attention and adaptation
- **Global standardization strategy** – a strategy that focuses on development and distribution of standardized products worldwide in order to reap the maximum benefits from low-cost advantages
- **Transnational strategy** – a strategy that endeavors to be simultaneously cost efficient, locally responsive, and learning-driven around the world

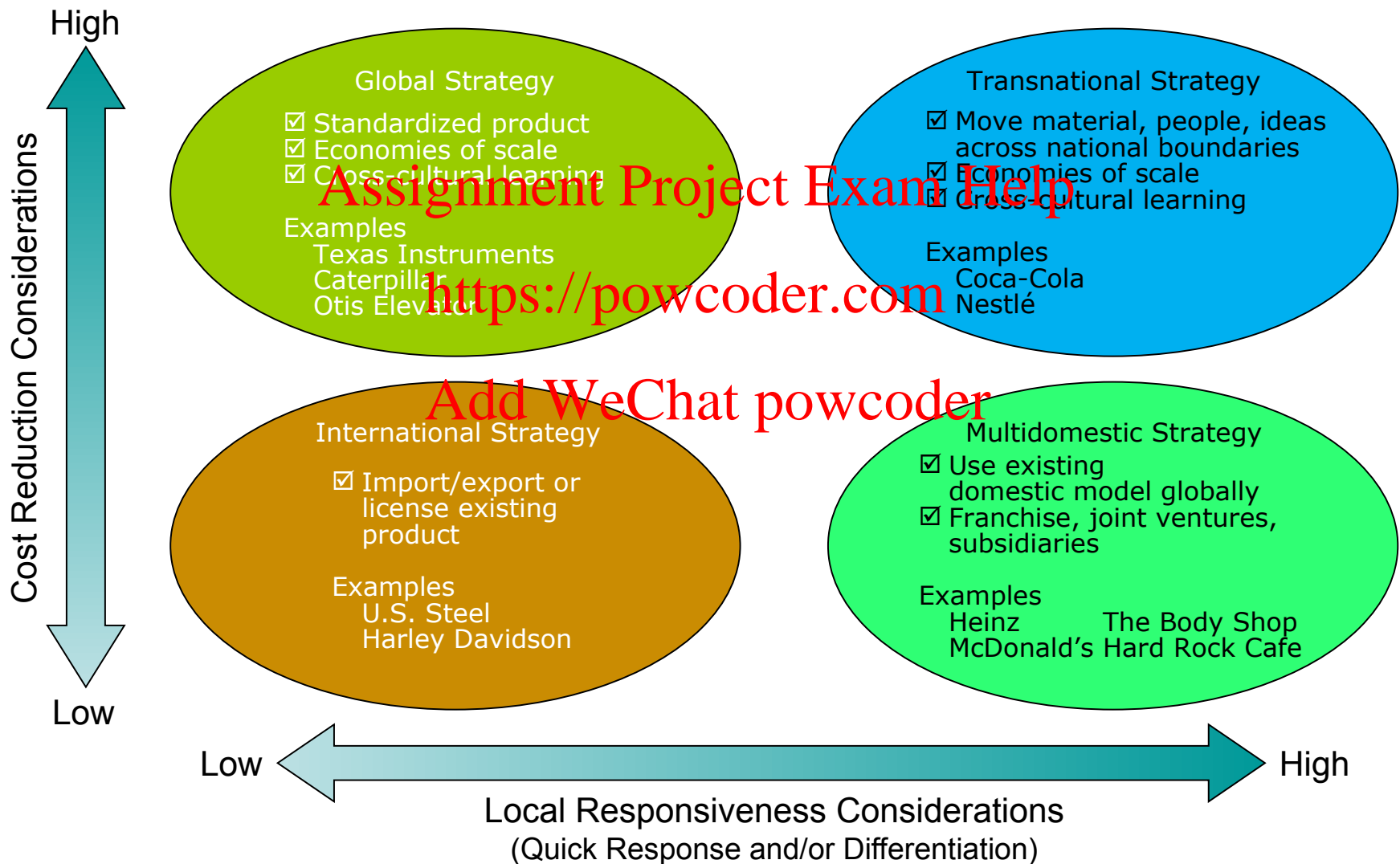


## Pros and Cons of the Four Strategic Choices for Multinational Enterprises

	ADVANTAGES	DISADVANTAGES
Home replication	<ul style="list-style-type: none"> <li>■ Leverages home country-based advantages</li> <li>■ Relatively easy to implement</li> </ul>	<ul style="list-style-type: none"> <li>■ Lack of local responsiveness</li> <li>■ May result in foreign customer alienation</li> </ul>
Multidomestic	<ul style="list-style-type: none"> <li>■ Maximizes local responsiveness</li> </ul>	<ul style="list-style-type: none"> <li>■ High costs due to duplication of efforts in multiple countries</li> </ul>
Global	<ul style="list-style-type: none"> <li>■ Leverages low-cost advantages</li> </ul>	<ul style="list-style-type: none"> <li>■ Too much local autonomy</li> <li>■ Lack of local responsiveness</li> <li>■ Too much centralized control</li> </ul>
Transnational	<ul style="list-style-type: none"> <li>■ Cost-efficient while being locally responsive</li> <li>■ Engages in global learning and diffusion of innovations</li> </ul>	<ul style="list-style-type: none"> <li>■ Organizationally complex</li> <li>■ Difficult to implement</li> </ul>



## Four Strategic Choices for MNEs - examples





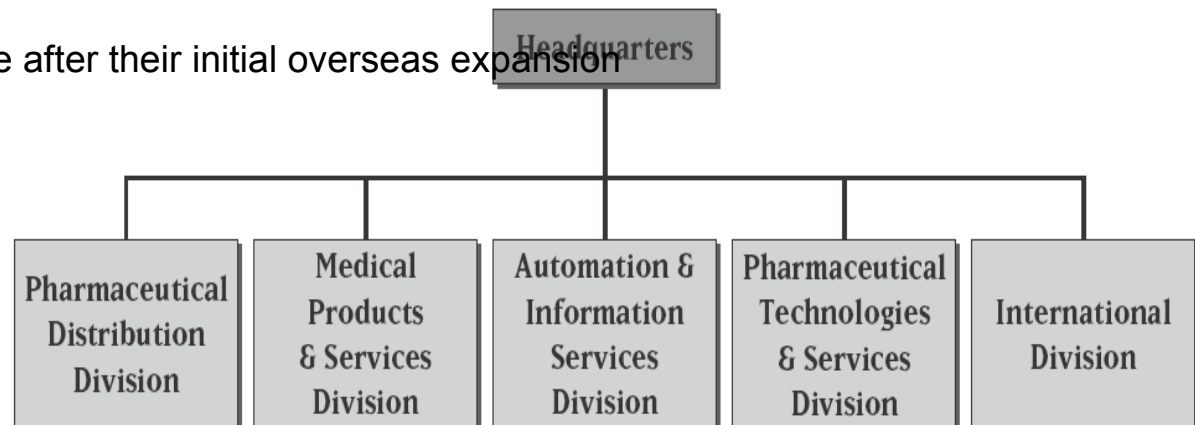
# Organizational Structures

- Four organizational structures that are appropriate for the four strategic choices:  
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- The 'International Division' structure → the home replication strategy
- The 'Geographical Area' structure → the localization (multidomestic) strategy
- The 'Global Product Division' structure → the global standardization strategy
- The 'Global Matrix' structure → the transnational strategy



## International Division Structure

- Typically set up when firms initially expand abroad, often when engaging in a home replication strategy.
- Advantages
  - Straightforward, easy to implement, cost effective.
- Problems
  - Foreign subsidiary managers in the international division are not given sufficient voice relative to the heads of domestic divisions.
  - International division activities are not coordinated with the rest of the firm, which focuses on domestic activities.
  - Firms often phase out this structure after their initial overseas expansion



International Division  
Structure at Cardinal Health



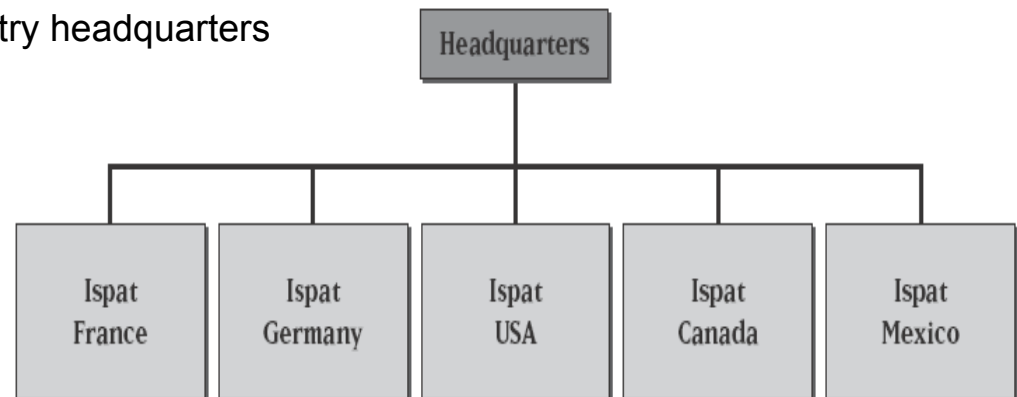
## Geographic Area Structure

- Organizes the MNE according to different geographic areas (countries and regions).
- Advantages
  - Its ability to facilitate local responsiveness is both a strength and a weakness.
- Problems
  - While being locally responsive can be a virtue, it may also encourage the fragmentation of the MNE into highly autonomous, hard-to-control “freedoms”
  - Fight between headquarter and region/country headquarters

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Geographic Area Structure at Ispat





# Global Product Division Structure

- Supports a global strategy in treating each product division as a stand-alone entity with full worldwide— as opposed to domestic—responsibilities for its activities.

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- Advantages

- Facilitates attention to pressures for cost efficiencies in allowing for consolidation on a worldwide (or regional) basis and reduction of inefficient duplication in multiple countries

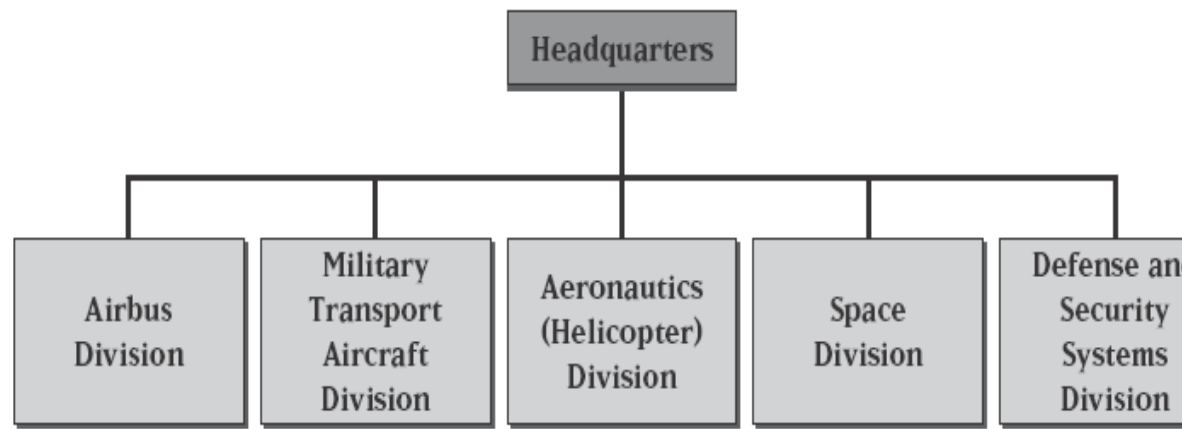
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- Problems

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- It is the opposite of the geographic area structure: Little local responsiveness.

Global Product Division Structure  
at European Aeronautic Defense  
and Space Company (EADS)



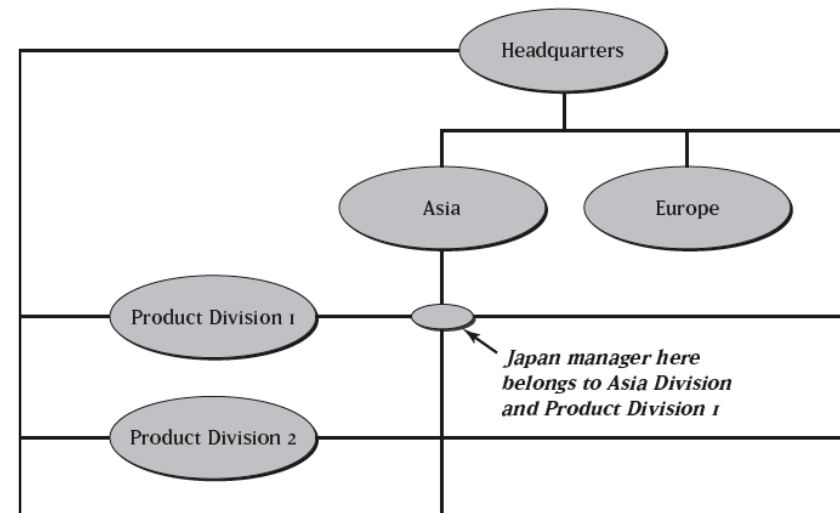




## Global Matrix

- Is often used to alleviate the disadvantages associated with both geographic area and global product division structures.
- Advantages **Assignment Project Exam Help**
  - Is intended to support the goals of the transnational strategy—in practice, it is often difficult to deliver Problems <https://powcoder.com>
- Problems **Add WeChat powcoder**
  - May add layers of management, slow down decision speed, and increase costs while not showing significant performance improvement

A Hypothetical Global Matrix Structure





## Organizational Design

- How organizations structure subunits and coordination and control mechanisms to achieve strategic goals
- Basic questions:
  - How to divide work among the organization's subunits?
  - How to coordinate and control the efforts of the units created?





# Use of control mechanisms in multinational organizational structures

EXHIBIT 8.13 Use of Control Mechanisms in Multinational Organizational Structures

Multinational Structures	Control Systems			
	Output Control	Bureaucratic Control	Decision-Making Control	Cultural Control
<i>International-Division Structure</i>	Most likely profit control	Must follow company policies	Some centralization possible	Treated like other divisions
<i>Worldwide Geographic Structure</i>	Profit center most common	Some policies and procedures necessary	Local units have autonomy	Local subsidiary culture often more important
<i>Worldwide Product Structure</i>	Unit output for supply; sales volume for sales	Tight process controls for product quality and consistency	Centralized at product-division headquarters	Possible for some companies but not always necessary
<i>Matrix Structure</i>	Shared profit responsibility with product and geographic units	Less important	Balanced between geographic product units	Culture must support shared decision making
<i>Transnational-Network Structure</i>	Used for supplier units and some independent profit centers	Less important	Few decisions centralized at headquarters; more decisions centralized in key network nodes	Organizational culture transcends national cultures; supports sharing and learning; the most important control mechanism



## Control systems (cont'd)

- 1, Output Control Systems

- Assesses the performance of a unit based on results, not on the process used to achieve those results
- Responsibility for profit is the most common output control.
- Example: a Profit Center.

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## Control systems (cont'd)

- 2. Bureaucratic Control Systems

- Focuses on managing behaviors, not outcome
- Examples include budgets, statistical reports, and centralization of decision-making.
- Budgets set financial targets for expenditures.
- Statistical reports provide information to top management on non-financial outcomes.
- Standard operating procedures (SOPs) provide rules that identify approved ways of behaving.



## Control systems (cont'd)

- 3, Decision-making Control Systems
  - The level of the organization where managers have the authority to make decisions.
  - In decentralized organizations, lower-level managers make many important decisions.
  - In centralized organizations, higher-level managers make most important decisions.
  - Transnational structures do not have a tendency for control in either direction.



## Control systems (cont'd)

- 4. Cultural Control Systems:
  - Use organizational culture to control employees' behaviors and attitudes
  - Strong organizational cultures develop shared norms, values, beliefs and traditions
  - Such cultures encourage high levels of commitment and support for the organization.





# Industry-based considerations on organizational structure

- Industry characteristics

- Industrial products firms: Favor global product divisions

- Consumer goods firms: Favor geographic areas

- ✂ Porter's five forces, e.g. <https://powcoder.com>

- Interfirm rivalry: structure depends on competing on cost or differentiation;

- Need to heighten entry barriers: Behind some recent moves to phase out multidomestic strategy and to erect world-scale facilities to deter entrants

- Bargaining power of suppliers and buyers: They also have to internationalize if the focal MNE goes overseas





## Resource-based considerations on organizational structure

- Value
  - Does any new structure (such as matrix) really add value?
- Rarity
  - When all rivals adopt a “global strategy,” it is not rare
- Imitability
  - It is easier to imitate formal structure. But how to imitate an elusive, informal matrix which is a “philosophy”?
- Organization
  - Some MNEs are better able to take advantage of complex organizational structures such as matrix than others
  - Organization culture - the collective programming of the mind that distinguishes the members of one organization from another



## Institution-based considerations on organizational structure

- *Externally*, MNEs are subject to the formal and informal institutional frameworks created by various home-country and host-country governments  
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- How MNEs are governed *internally* is determined by various formal (responsibilities defined by an organizational chart) and informal (organizational norms, values, and networks) rules of the game  
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