

Strategy making and International Business: Structure of Global Organization

An organizational structure is followed by all the international business organizations. The main responsibility of following an organizational structure is to set right all the processes of the organization. There are different types of organizational structures and the type of organizational structure adopted by the business depends on the business requirements and operations.

1. Initial Division Structures

Some of the business which is into on-site manufacturing, the firms involved in export usually adopts this Initial Division Structure. Some of the illustrations are the consulting and financial firms usually follow Initial Division Structure. Some of the export firms that adopt this type of organization structure include the firms with technological advanced products.



2. International Division Structure

In order to take care of the international operations of the business, a specific international division structure is being built. All the business which are still developing for setting up the business operations internationally, this structure is being adopted.



Advantages of Divisional Structure

1. Accountability

The divisional organizational structure allows each division of a firm to be accounted for in isolation. It can easily be seen which department is successful in making profits while which are bearing losses. Loss bearing divisions can be shut down completely while more investments can be made in profit earning divisions. This analysis is not possible when a firm is working in any other structures such as functional structures.

2. Team working

The divisional organizational structure allows people in a single division to interact with each other. When all of them are working towards a single goal, the success of their division, the motivation is higher than ever. The communication is much efficient, and everyone knows what

the other person needs from them. For example, a finance department would know how much money is needed for a division's research and development.

3. Responsiveness to external changes

When in a divisional organizational structure, a division focuses just on its own product, service or region. This helps them focus better on external factors that can affect their operations. Divisions become quicker in responding to external changes such as weather change, natural disasters, financial crisis, trade union matters and so on.

4. Organizational culture

Organizational culture is the values and the practices that persist in an organization. The divisional structure allows this type of culture to persist in a division. The organizational culture can help people interact better with each other. It also helps create bonds between them. A better understanding of each other helps in achieving the pre-set goals and targets, no matter how difficult they are.

5. Leadership

In the divisional structure, each division has its own leader. The leader sets goals along with his/her employees and works alongside them to achieve those goals. The direct control from the top leadership of the firm is no longer a necessity. The upper leadership can indulge in strategic decisions. Divisional leaders also become experts in their areas of work and work very efficiently.

Disadvantages of divisional structure

1. Small organizations

Divisional structure is not a possibility in small organizations. The organization may produce a variety of goods and services, and they might be operating in several regions, but they still do not have the resources to run so many different divisions and have the employees of same level in each division. This also causes duplication of work. All of this would increase the organization's costs, and if the organization is small, it will not be able to bear the high costs and may go out of business.

2. Competition: healthy or not?

Competition is good until it becomes cruel. Healthy competition among divisions is good and bears good fruit for the entire organization, but when the competition becomes so severe that division heads start holding grudges against each other, it can be extremely harmful for the organization as a whole. Divisions would want other divisions to perform badly, instead of performing better themselves, in order to get past them and get the reward. The employees think themselves as a part of a certain division, but they forget that they are still a part of a much bigger organization.

3. Related products

Organizations producing products that are relation with each other might find it difficult to integrate divisions producing those complementary (related) products. For example, a smart phone manufacturer that also manufactures accessories for smart phones might find it difficult for their mobile phones and accessories divisions to stay on the same ground and integrate on their future prospects. As a result, organizations may bear heavy losses if the products in relation to each other are not effectively syncing.

4. Lack of communication amongst divisions

When divisions would not communicate amongst each other, they would not know each other's objectives and goals. This lack of knowledge might hamper the organization in the form of extra taxes, fines, lack of finance available because a division might have spent extra on CSR (corporate social responsibility) and so on.

5. Economies of scale

Economies of scale are the cost savings when an organization produces goods or services in a large quantity. Divisional structure prevents organizations from getting the most out of economies of scale. As a single division does not produce enough to take great benefits out of the economies of scale.

Now that we have seen the advantages and disadvantages of the divisional structure, it is time that we evaluate whether to use it or not. A divisional structure can be extremely efficient and

successful if practiced in a large organization. The communication barriers amongst divisions are low or non-existent and the need to react to external environment changes is high.

3. Global Product Division

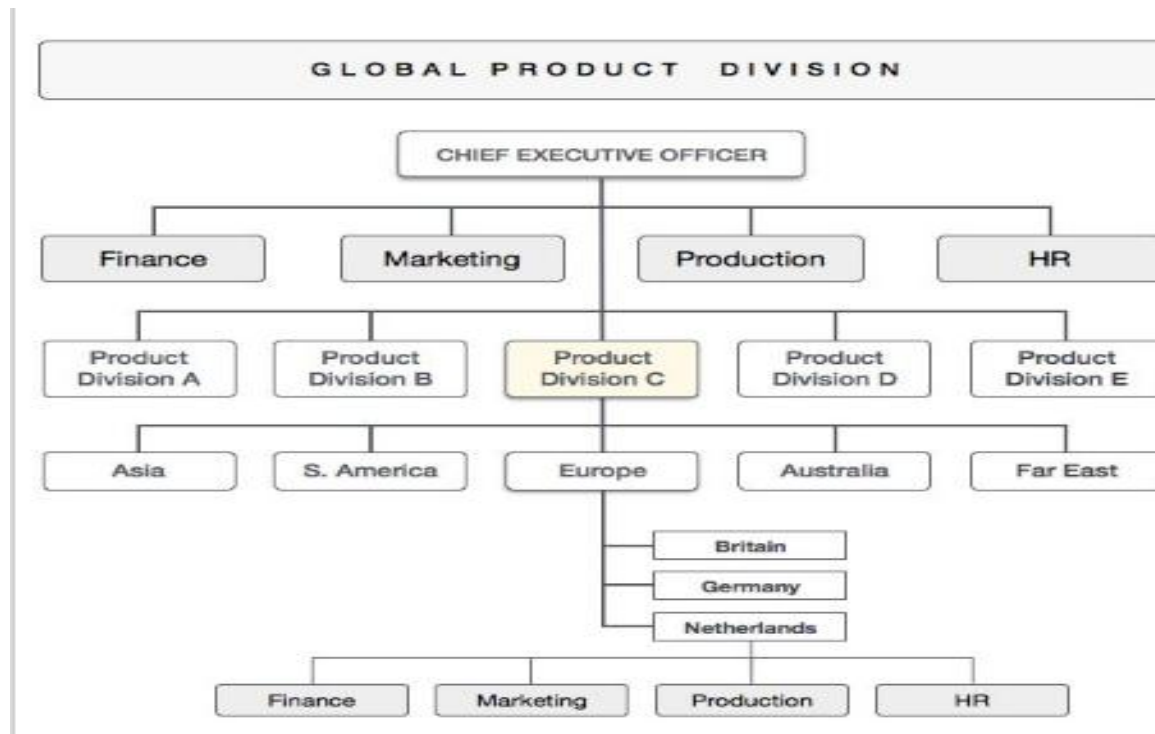
In accordance with the groups of the product, the structure is divided such that the specific product groups are taken care by the divisions. Each of the division is considered as a profit center.

Advantages

- Product, technology and customer diversity is managed
- All the local needs are catered
- This model facilitates in coordination of all the different departments such as marketing, production and finance.

Disadvantages

- There is a possibility of existence of duplication of the staff.
- Usually the managers get deviated from concentrating on the long-term goals.
- Only the local market is concentrated by the division managers.



4. Global Area Division

When the operations of a business are controlled on the basis of geographical location rather than the type of product, it is known as Global Area Division. Many companies that are usually in the business which has only selected products adopt this global area division.

Strengths

- * Intensive knowledge transfer concerning the region
- * focus on differences between regions
- * Regional expertise
- * Communication and coordination advantages: personal communication as coordination instrument easy to use, due to geographic proximity
- * Holistic view on business in the region
- * Uniform company image in the region
- * Flexible response to changes in local environment (local responsiveness easy)

Weaknesses

- * Duplication of functions
- * Duplication of resources
- * Coordination and knowledge transfer across regions might be difficult and slow
- * Risk of regional egoism
- * Risk of overemphasis on regional differences
- * Risk of low cost efficiency and low economies of scale due to local adaptation
- * Diffusion of technology might be slowed down
- * “not invented here” syndrome
- * Problems in technologically dynamic environments



5. Global Functional Division

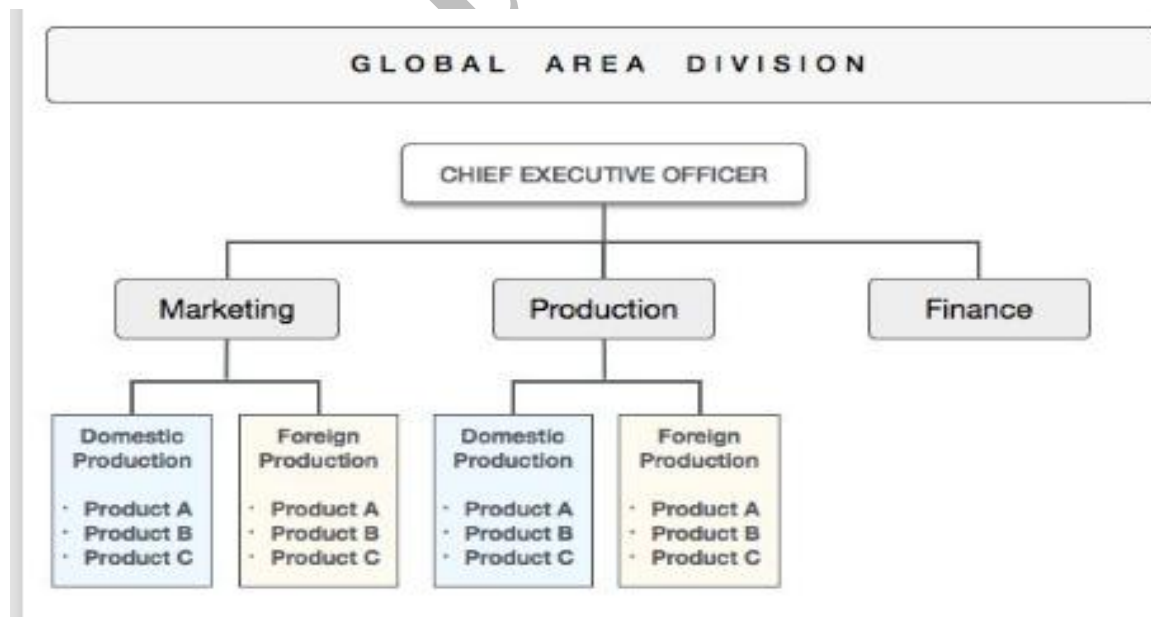
On the basis of different functions, the global operations are organized by this global functional division.

Advantages

- More emphasis is given to functional leadership, leaner managerial staff and centralized control.
- The businesses that require control on the integrated production mechanisms adopt this practice of Global Functional Division.
- This model is best suitable for the business which involve in transportation of goods and raw materials.

Disadvantages

- This model is not suitable for all business types. This model best suits only to oil and mining firms.
- The coordination of the different processes becomes difficult.
- Since the different processes are not integrated, management of all the processes turns out to be difficult.



6. Mixed Matrix

Mixed Matrix is a combination of global product, area, and functional structures.

Advantages

The matrix structure has the following advantages:

- i. Where there are conflicts of interests, the quality of decision-making is enhanced by matrix structure.
- ii. Under this structure, direct contact replaces bureaucracy.
- iii. It promotes development of managers through increased involvement in decision-making.
- iv. It combines the advantages of different alternative structures.

Disadvantages:

The important disadvantages of the matrix organization are the following:

- i. It may take more time to take a decision.
- ii. Under this structure, there could be confusion regarding job and task responsibilities.
- iii. Cost and profit responsibilities may not be very clear in the matrix organization.
- iv. There is scope for conflicts.
- v. It may encourage bureaucratization.