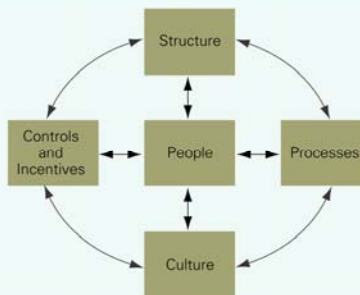


Organization architecture and profitability

- Totality of a firm’s organization, including structure, control systems, incentives, processes, culture and people.
- Superior organization profitability requires three conditions:
 - An organization’s architecture must be internally consistent.
 - Strategy and architecture must be consistent.
 - Strategy, architecture and competitive environments must be consistent.

Organizational architecture

Fig 13.1



■ To maximize profitability a firm must achieve consistency between the various components of its architecture

Organizational architecture

- Organizational structure: Location of decision-making responsibilities within the structure (vertical differentiation)
 - Formal division of the organization into subunits e.g. product divisions (horizontal differentiation)
 - Establishment of integrating mechanisms including cross-functional teams and or pan-regional committees
- Control systems : metrics used to measure performance of subunits and judge managerial performance

Organizational architecture

- Incentives: Devices used to reward appropriate employee behavior
 - Closely tied to performance metrics
- Processes: Manner in which decisions are made and work is performed

Organizational architecture

- Organizational culture: Values and norms shared among employees of an organization
 - Strategy used to manage human resources
- People: Employees
 - Strategy used to recruit, compensate, and retain individuals with necessary skills, values and orientation

Purpose of Organizational Structure

- to exercise control
- to establish division of labor
- to facilitate communications
- to facilitate coordination & integration
- to establish accountability
- to delegate responsibility
- to establish lines of authority and chain of command
- to establish rules and regulations

Vertical differentiation

- Concerned with where decisions are made
 - Where is decision making power concentrated?
- Two Approaches
 - Centralization
 - Decentralization



Key Dimensions of Organizational Structure

- Specialization
- Standardization
- Centralization

Vertical differentiation

Concerned with where decisions are made.

- **Centralization:**
 - Facilitates coordination.
 - Ensure decisions consistent with organization's objectives.
 - Top-level managers have means to bring about organizational change.
 - Avoids duplication of activities.
- **Decentralization:**
 - Overburdened top management.
 - Motivational research favors decentralization.
 - Permits greater flexibility.
 - Can result in better decisions.
 - Can increase control.

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

Strategy and organization structure

Major strategic decisions are centralized at the firm's headquarters while operating decisions are decentralized

- **Global strategy :** aim to realize location and experience economies
 - Centralization of some operating decisions
- **Multi-domestic firms:** aim for local responsiveness
 - Decentralizing operating decisions to foreign subsidiaries
- **International firms:** maintain centralized control over their core competency and decentralize other decision to foreign subsidiaries
- **Transnational firms:** aim to realize location and experience curve economies
 - Centralized control over global production centers
 - Need to be locally responsive

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

Structure of the domestic firm

- Concerned with structure design
- Decisions made on basis of function, type of business or geographical area
- Structure of domestic firms
 - Single entrepreneur or small team of individuals therefore a centralized structure
 - With introduction of more product lines, product divisional structure introduced
 - Each division responsible for single product line
 - Self-contained, largely autonomous entities
 - Responsible for operating decisions and performance

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

The functional structure

Typically, the structure that evolves in a company's early stages.

Coordination and control rests with top management.

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

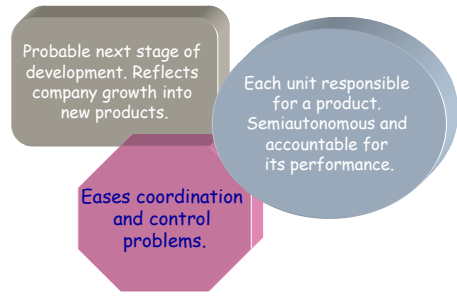
A typical functional structure

Fig 13.3



McGraw-Hill/Irwin International Business, 5/e © 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

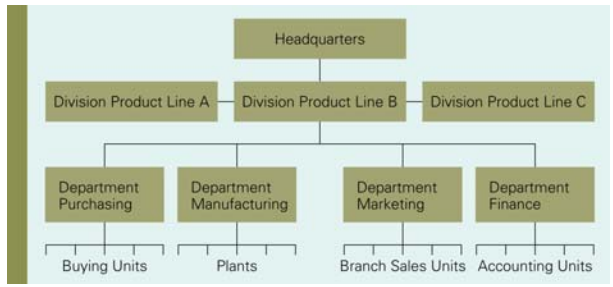
Product division structure



McGraw-Hill/Irwin International Business, 5/e © 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

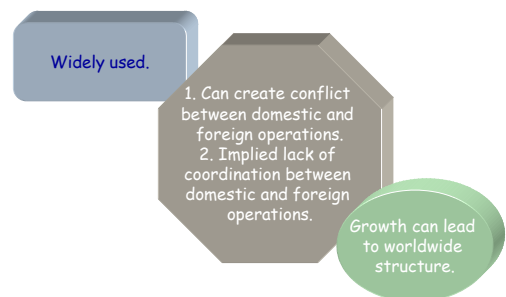
A typical product divisional structure

Fig 13.4



McGraw-Hill/Irwin International Business, 5/e © 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

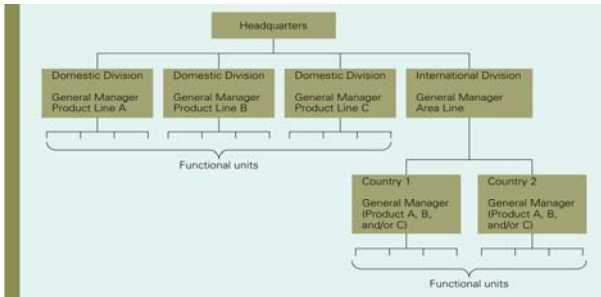
International division



McGraw-Hill/Irwin International Business, 5/e © 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

One Company's international division structure

Fig 13.5



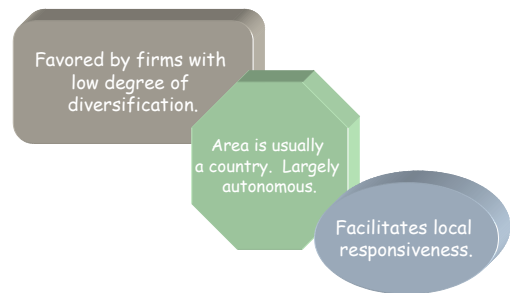
International Division Structure

- adopted in early stages of international business operations
- coordinate all IB activities
- develop international expertise & skills
- develop a global/international mindset
- champion of foreign business

Disadvantages of Intl. Division

- dependent on domestic product divisions for R&D, engg., etc.
- conflict over pricing and transfer pricing
- power struggles in firm: intl Vs. domestic
- cannot handle too many products
- not appropriate if foreign sales over 25%
- heads of foreign subsidiaries relegated to second-tier positions

Worldwide area structure

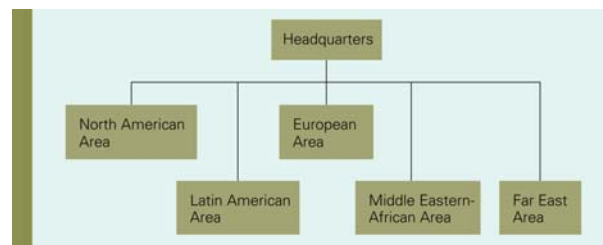


Worldwide area structure

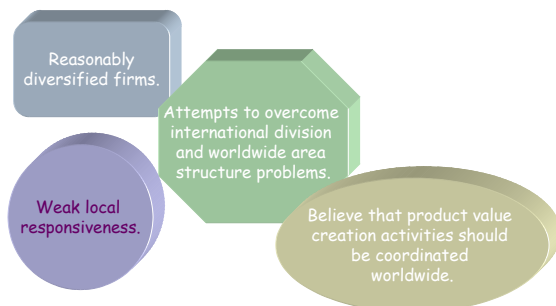
- Worldwide area structure
 - Favored by firms with low degree of diversification & domestic structure based on function
 - World is divided into autonomous geographic areas
 - Operational authority decentralized
 - Facilitates local responsiveness
 - Fragmentation of organization can occur
 - Consistent with multidomestic strategy

A worldwide area structure

Fig 13.7



Product division

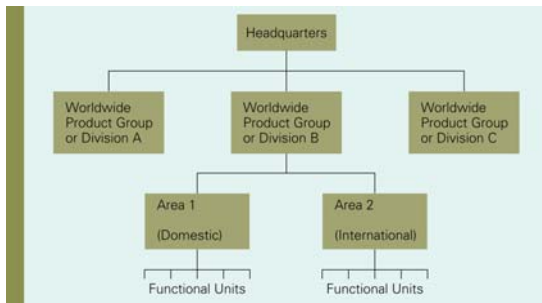


World wide product divisional structure

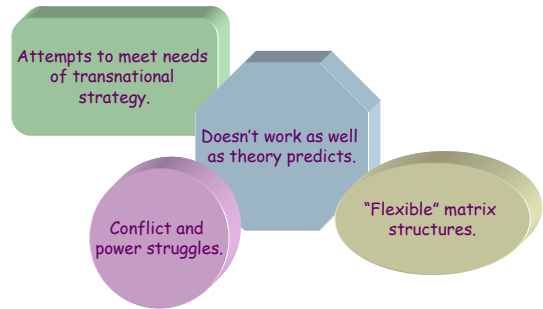
- Adopted by firms that are reasonably diversified
- Original domestic firm structure based on product division
- Value creation activities of each product division coordinated by that division worldwide
 - Help realize location and experience curve economies
 - Facilitate transfer of core competencies
- Problem: area managers have limited control, subservient to product division managers, leading to lack of local responsiveness

A worldwide product division structure

Fig 13.8



Matrix structure

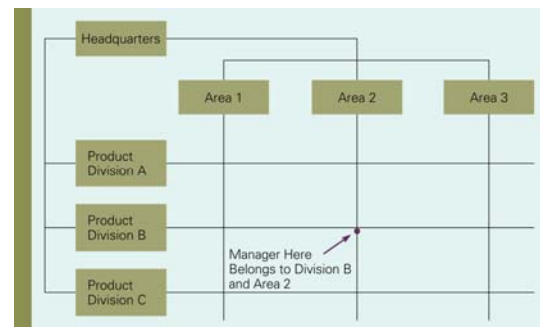


Horizontal differentiation: Global matrix structure

- Helps to cope with conflicting demands of earlier strategies
- Two dimensions: product division and geographic area
- Product division and geographic areas given equal responsibility for operating decisions
- Problems
 - Bureaucratic structure slows decision making
 - Conflict between areas and product divisions
 - Difficult to make one party accountable due to dual responsibility

A Global matrix structure

Fig 13.9



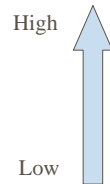
The International structural stages model

Fig 13.6



Integrating mechanisms

- Need for coordination follows the following order on an ascending basis



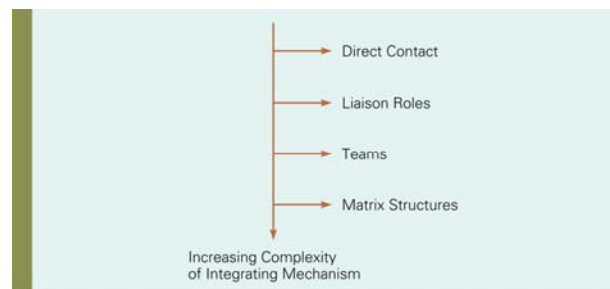
- Transnational
- Multi domestic corporations
- International companies
- Global companies

Integrating mechanism

- Impediments to coordination
 - Differing goals and lack of respect
 - Different orientations due to different tasks
 - Differences in nationality, time zone & distance
 - Particularly problematic in multinational enterprises with its many subunits both home and abroad

Formal integrating mechanisms

Fig 13.10



Formal integrating systems

- Direct contact between subunit managers
- Liaison roles: an individual assigned responsibility to coordinate with another subunit on a regular basis
- Temporary or permanent teams from subunits to achieve coordination
- Matrix structure: all roles viewed as integrating roles
 - Often based on geographical areas and worldwide product divisions

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

Informal integrating mechanisms

- Informal management networks supported by an organization culture that values teamwork and a common culture
- Non-bureaucratic flow of information
- It must embrace as many managers as possible
- Two techniques used to establish networks
 - Information systems
 - Management development policies
 - Rotating managers through various subunits on a regular basis

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

Control systems & incentives

- Types of control systems
 - Personal controls
 - Bureaucratic controls
 - Output controls
 - Cultural controls
- Incentive systems
 - Refer to devices used to reward appropriate behavior
 - Closely tied to performance metrics used for output controls

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

Factors influencing incentive system

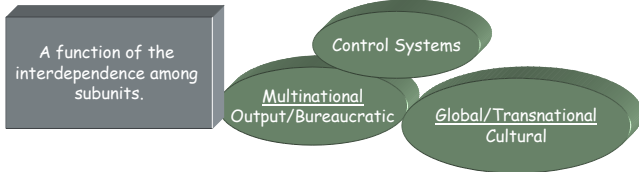
- Seniority and nature of work
 - Reward linked to output target that the employee can influence
- Cooperation between managers in subunits
 - Link incentives to profit of the entire firm
- National differences in institutions and culture
- Consequences of an incentive system should be understood

McGraw-Hill/Irwin
International Business, 5/e

© 2005 The McGraw-Hill Companies, Inc., All Rights Reserved.

Performance ambiguity

- Key to understanding the relationship between international strategy, control systems and incentive systems
 - Caused due to high degree of interdependence between subunits within the organization



Strategy, interdependence and ambiguity

- Level of performance ambiguity depends on number of subunits, level of integration & joint decision making



Costs of control for the four International business strategies

Strategy	Interdependence	Performance Ambiguity	Costs of Control
Multidomestic	Low	Low	Low
International	Moderate	Moderate	Moderate
Global	High	High	High
Transnational	Very high	Very high	Very high

Table 13.1

Interdependence, Performance Ambiguity, and the Costs of Control for the Four International Business Strategies

Implications for control and incentives

- Costs of control:
 - Time top mgt. must devote to monitoring and evaluating subunits performance
 - Performance ambiguity increases cost of control
 - Creates conflicts as the costs of controlling transnational strategy are much higher
 - Cultural controls
- Incentive pay of senior managers should be linked to the entity to which both subunits belong

Processes

- Manner in which decisions are made and work is performed
 - Cut across national boundaries as well as organizational boundaries
 - Can be developed anywhere within the firms global operations network

Organizational culture

- Values and norms shared among people
- Sources:
 - Founders and important leaders
 - National social culture
 - History of the enterprise
 - Decisions that result in high performance
- Cultural maintenance:
 - Hiring and promotional practices
 - Reward strategies
 - Socialization processes
 - Communication strategy

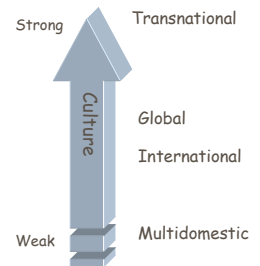
Synthesis of strategy, structure and control systems

Structure and Controls	Strategy			
	Multidomestic	International	Global	Transnational
Vertical differentiation	Decentralized	Core competency centralized; rest decentralized	Some centralized	Mixed centralized and decentralized
Horizontal differentiation	Worldwide area structure	Worldwide product division	Worldwide product division	Informal matrix
Need for coordination	Low	Moderate	High	Very high
Integrating mechanisms	None	Few	Many	Very many
Performance ambiguity	Low	Moderate	High	Very high
Need for cultural controls	Low	Moderate	High	Very high

Table 13.2
A Synthesis of Strategy, Structure, and Control Systems

Organization culture and performance

- A “Strong” Culture:
 - Not always good
 - Sometimes beneficial, sometimes not
 - Context is important
- Adaptive cultures.
- Culture must match an organization’s architecture
- Culture does not necessarily translate across borders



Organizational change

- Firms need to periodically alter their architecture to conform to changes in environment & strategy
- Hard to achieve due to organizational inertia
- Sources of inertia
 - Possible redistribution of power and influence among managers
 - Strong existing culture
 - Senior manager's preconceptions about the appropriate business model
 - Institutional constraints such as national regulations including local content rules regarding layoffs

Organizational change

- Change to match competitive and strategy environment
 - Hard to change:
 - Existing distribution of power and influence.
 - Current culture.
 - Manager's preconceptions about the appropriate business model or paradigm.
 - Institutional constraints.
- Principles for change;
 - Unfreeze the organization.
 - Moving to the new state.
 - Refreezing the organization.