

International Management: The Structure of a Global Organization & Control/Coordination

1. Overview/Goal

By the end of unit 1 students should be able to understand various ways to organize the activities of an international organization, some of the various global business structures, and ways of change/monitoring for a global firm.

2. Competencies

Unit 1 – Students should have gained understanding of the ways to organize the activities of an international organization, various global business structures, and changes/monitoring mechanisms for a global firm.

Unit 1: The Structure of a Global Organization & Control/Coordination

3.1. Pre-activity discussion / UNIT 1 – The Structure of a Global Organization & Control/Coordination

Students will be asked to describe the hierarchy of a job where they might have worked in the past or the hierarchy of a high-school. Who is the leader and how many people report directly to that leader? Might there be several leaders?

4.1 Learning activity

(Slide 6): “Internationalization” is the development by which an organization progressively changes in reaction to global competition, home market saturation, and/or the desire to expand and diversify into new markets. “Structural Evolution”, also known as the (Stages Model), contains four stages. The first stage is when international division is first undertaken at an early stage when sales abroad and product diversity is initially limited. During the next stage, companies increase foreign sales without increasing product diversity. During the subsequent stage, companies expand by increasing foreign product diversity and adopt a global product division structure. The last stage occurs when both global sales and diversity are high, in which the company moves to a global matrix structure of the organization.

(Slide 7): There are several ways in which a company can organize its global structure to coincide with its global activities. In the first, “Domestic structure plus export department”, a firm (especially common in the smaller ones) begin their international involvement by simply exporting. This is considered to be the most simple form of organization. Another way to organize, the “Domestic structure plus a foreign subsidiary”, is designed to help access to and development of specific global markets in one or more countries. This structure works very well for companies w/ one, or a few subsidiaries located fairly close to the organization’s headquarters. Next, the “International division”, structure, the company might decide to specialize w/ further market expansion. With this particular structure, the various foreign subsidiaries are all organized under the Int’l division, and the foreign subsidiary mgrs are typically given the title of VP, Int’l Division. These mgrs then report to the CEO. This is commonly used when further market expansion is needed.

(Slide 8): To respond to increased product diversification and to maximize benefits from both domestic and foreign operations, a firm may choose to replace its international division w/ an integrated global structure. This structure can be organized along functional, product, geographic, or matrix structures. The “Global Functional Structure” is designed on the basis of the company’s functions, which might be marketing, HR, operations, finance, etc. Here, foreign operations are integrated into the activities and responsibilities of each dep’t to gain functional specialization and economies of scale. In the “Global product structure”, each division is headed by its own general manager, and each is responsible for its own prd’n and sales functions. This works best for firms w/ diversified product lines that have different technological bases and that are aimed at dissimilar or dispersed markets. A single product is represented by a separate division and each division is a strategic business unit. The “Global geographic structure” works best when a country, regional needs, and relative mkt knowledge take precedence over product expertise. This is the most common form, and divisions are created to cover geographic regions. Under this setup, each regional mgr is responsible for the operations and performance of the countries within a given region. A matrix is a hybrid organization of overlapping responsibilities. This is used by some firms but generally is out-of-style nowadays for many global companies.

(Slide 9): Cost, technology, and quality improvements must be attained when a global manager is selecting the best area for manufacturing and/or operations. Oftentimes, producing in different products means that achieving optimal economies of scale. Organizing to facilitate a globalization strategy typically involves the development of strategic alliances wherever the firm does business and close coordination within the subsidiaries involved. These two factors must be considered in order to achieve economies of scale.

(Slide 10): There is no one best way to organize the operations of an international business. So, when does a company need to make a change in their organizational structure? There are several instances when this might be the smartest strategy for an international manager. When organizational inefficiencies start to begin, when divisions and subsidiaries cannot coexist together or lose their effectiveness together, when responsibilities begin to overlap, when customer service inefficiencies start to crop up, when an organization decides to make a change in strategy/goals, or when an organization makes a change in operations.

(Slide 11): Direct mechanisms that provide the basis for the overall guidance and mgmt of foreign operations include the design of appropriate structures (discussed earlier) and the

use of effective HR practices. Such decisions proactively allow operations to meet the desired results, rather than fixing the problems after they have occurred. Some direct mechanisms of monitoring that a company might implement include the use of effective HR practices, head-office personnel visits and oversight, and/or regular meetings.

(Slide 12): Another style of controlling foreign subsidiaries are indirect mechanisms of monitoring, which might include sales quotas, budgets, and/or feedback reports. These methods require less direct involvement and often provide the needed examinations of control.

(Slide 13): A global manager must know the factors likely to affect the appropriateness of monitoring systems. The following should be considered when assessing the system of reporting and monitoring for an international firm: The specifics of management practices, any sort of local constraint placed on the operation, and the expectations regarding authority, time, and communications within the operation.

5.1. Post-activity discussion / UNIT 1 – The Structure of a Global Organization & Control/Coordination

QUESTION:

Name the direct mechanisms for monitoring and the indirect mechanisms of monitoring for a multinational company. Why are the mechanisms different and when is an ideal time that they should be utilized?

Control and coordination in global ERP configuration, Susan Clemmons, Steven John Simon, Business Process Management Journal, 2001. Stopford and Wells' International Structural Stages Model, California State University, East Bay, 1998 Strategy Shifts in MNC Subsidiaries, James H. Taggart, Strategic Management Journal, 1998.

6. Assignment specifications

What are the implications of using an indirect mechanism vs a direct mechanism. Why is it important to know what style is important in an international setting?

7. Assessment

Did students understand the differences in control styles and why it is appropriate to use one versus another?

8. References

Books:

Deresky, H. (2005). *International Management: Management Across Borders and Cultures*.
Pearson/Prentice Hall

Articles:

Clemmons, S., and Simon, S. J.(2001), "Control and coordination in global ERP configuration,"
Business Process management Journal, (17:3).

James H. Taggart (1998). "Strategy Shifts in MNC Subsidiaries", *Strategic Management Journal*,
(19:7).

Stopford, J. M. and Wells, L.T.(1972), "International Structural Stages Model", California State
University, East Bay.

Image Source:

<http://lifewithalacrity.blogs.com/photos/uncategorized/evolution.jpg>

http://farm2.static.flickr.com/1172/538958895_a4c88d085f.jpg?v=0

http://world.honda.com/profile/organization/image/t_organization.jpg

http://www.wilshiregrand.com/images/photo_meeting.jpg

http://mywebsite.register.com/db4/00363/essentialsalessolutions.com/ uimages/ess_img_014.jpg