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ECON

Organizational Structure of MNEs and Control Systems

International Management

Lecture Learning Goals

- Understand the importance of appropriate organizational structures to effective strategy implementation
- Become familiar with the types of organizational designs suitable for the level and scope of internationalization of the firm
- Be able to recognize why and when organizational restructuring is needed

Opening Profile 1: Samsung

Samsung SH700

In 1993, they launched the original SH700 model, an “ultra-light” mobile phone that was definitely a step in the right direction for lighter and more convenient to carry mobile phones in the future



Opening Profile 1: Samsung

- Badly hit by the global economic downturn in 2009
- Implemented a radical reorganization
- Consolidating business operations into two operating divisions
- Replaced the heads of five of its eight overseas operations

Opening Profile 2: ACO

- ACO – building drainage and many more
- Changing structure from decentralised towards higher centralisation
- Trend in MNEs?



Opening Profile 3: Alcoa

- Created smaller units
- Linked geographically dispersed, but similar businesses (e.g., Brazil and Australia)

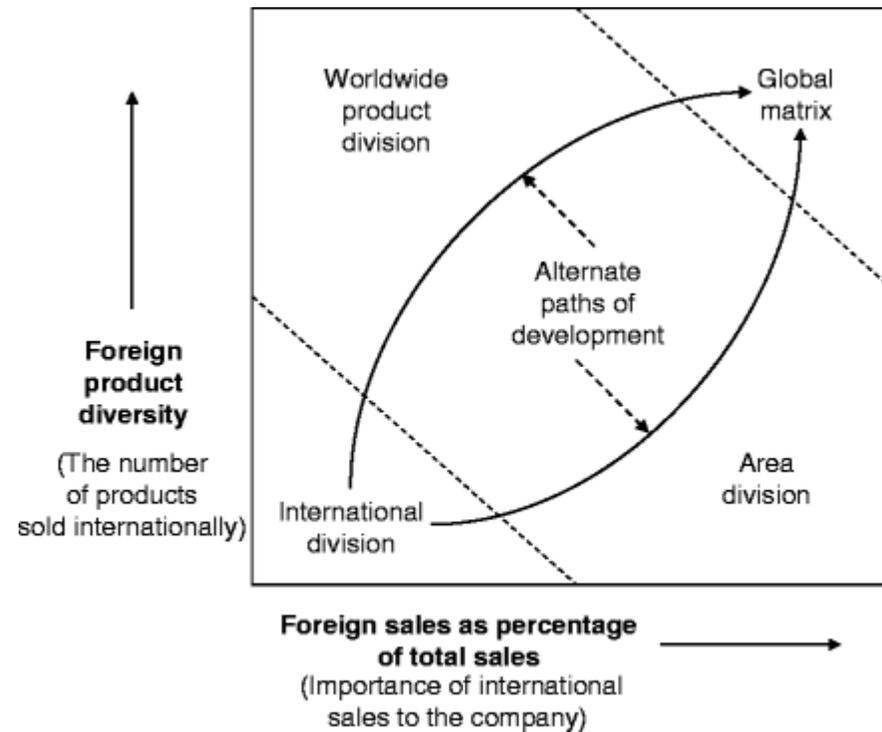
Organizational Change and Design Needed When:

Clashes among divisions, subsidiaries, or individuals over territories or customers	Duplication of administrative or personnel services, sales offices, account executives	Growth (mergers, acquisitions, etc.)
An increase in overseas customer service complaints	A shift in operational scope (new customers, new project, etc.)	Conflict between overseas and domestic staff
Centralization leads to excessive and, thus, misused or misunderstood data	Unclear reporting relationships	Other?

Organizational Structure

- Must evolve to accommodate internationalization
- Should be contingency based
- Must “fit” with strategy

Stopford-Wells model



Basic structures of MNE

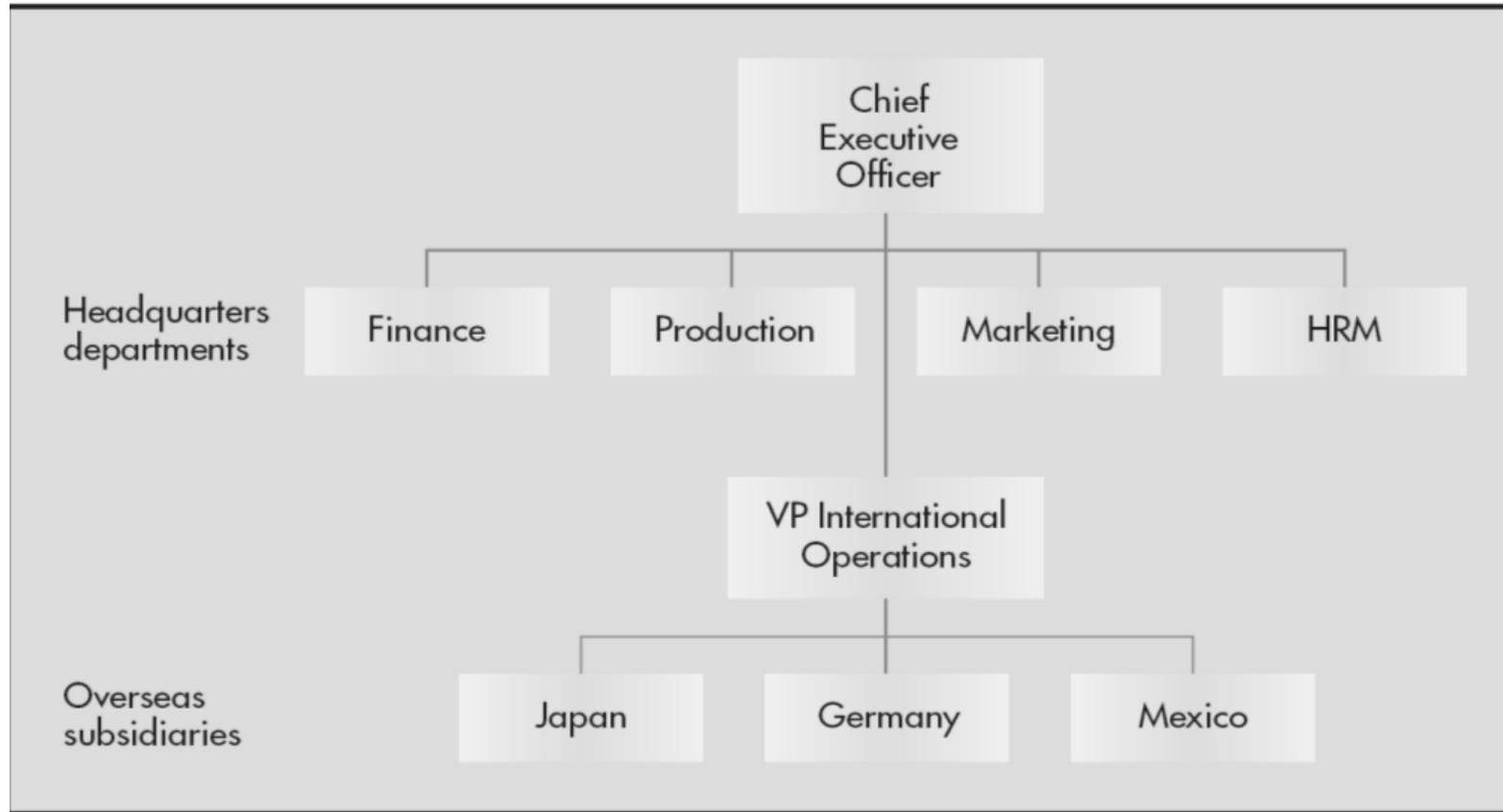
Domestic structure +

- export department
- foreign subsidiary
- international division

Integrated global structures

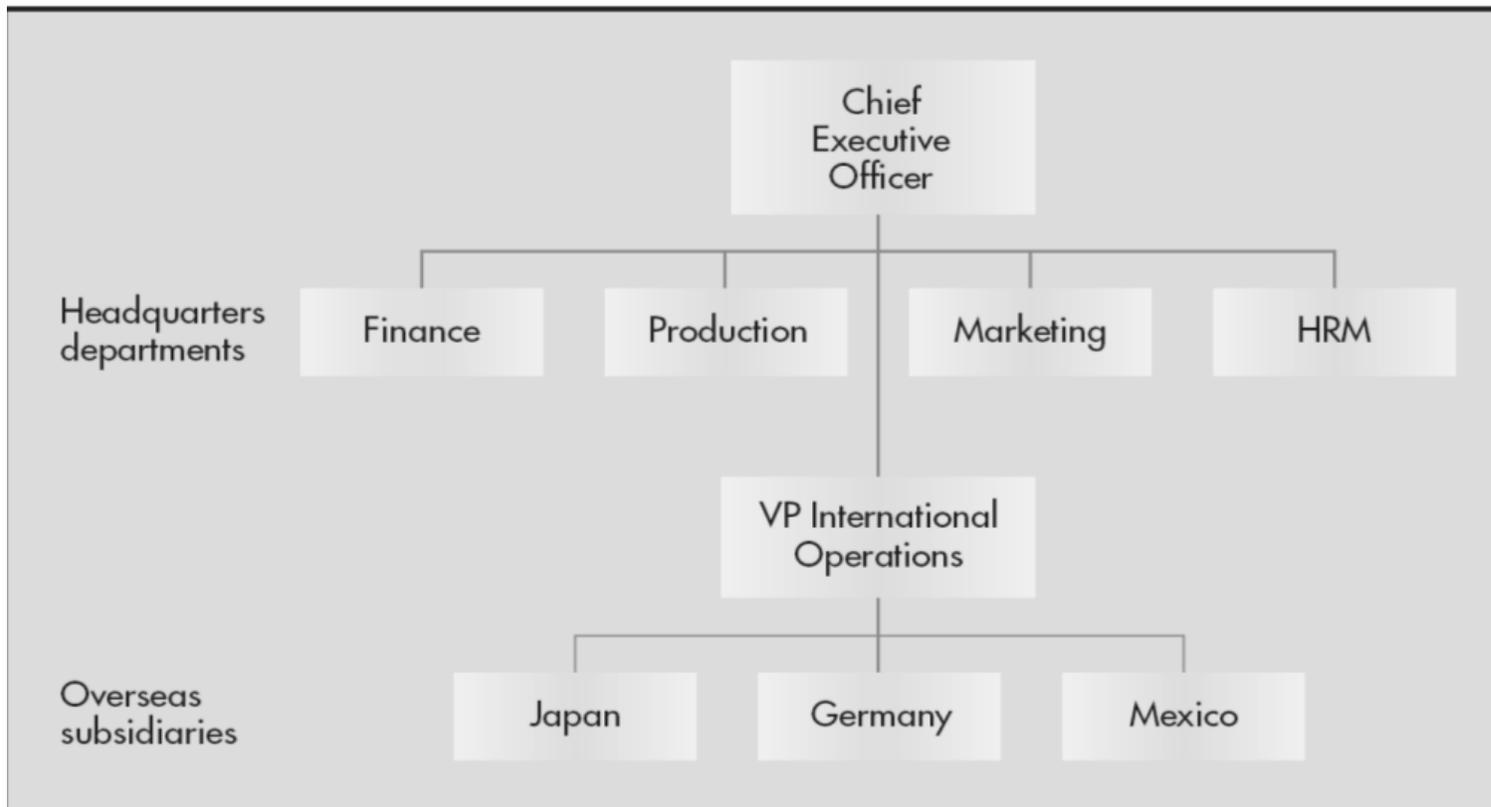
- Global functional structure
- Global area structure
- Global product structure

Domestic Structure Plus Export Dpt/Foreign Subsidiary/Int Division



Domestic Structure Plus Export Dpt/Foreign Subsidiary/Int Division

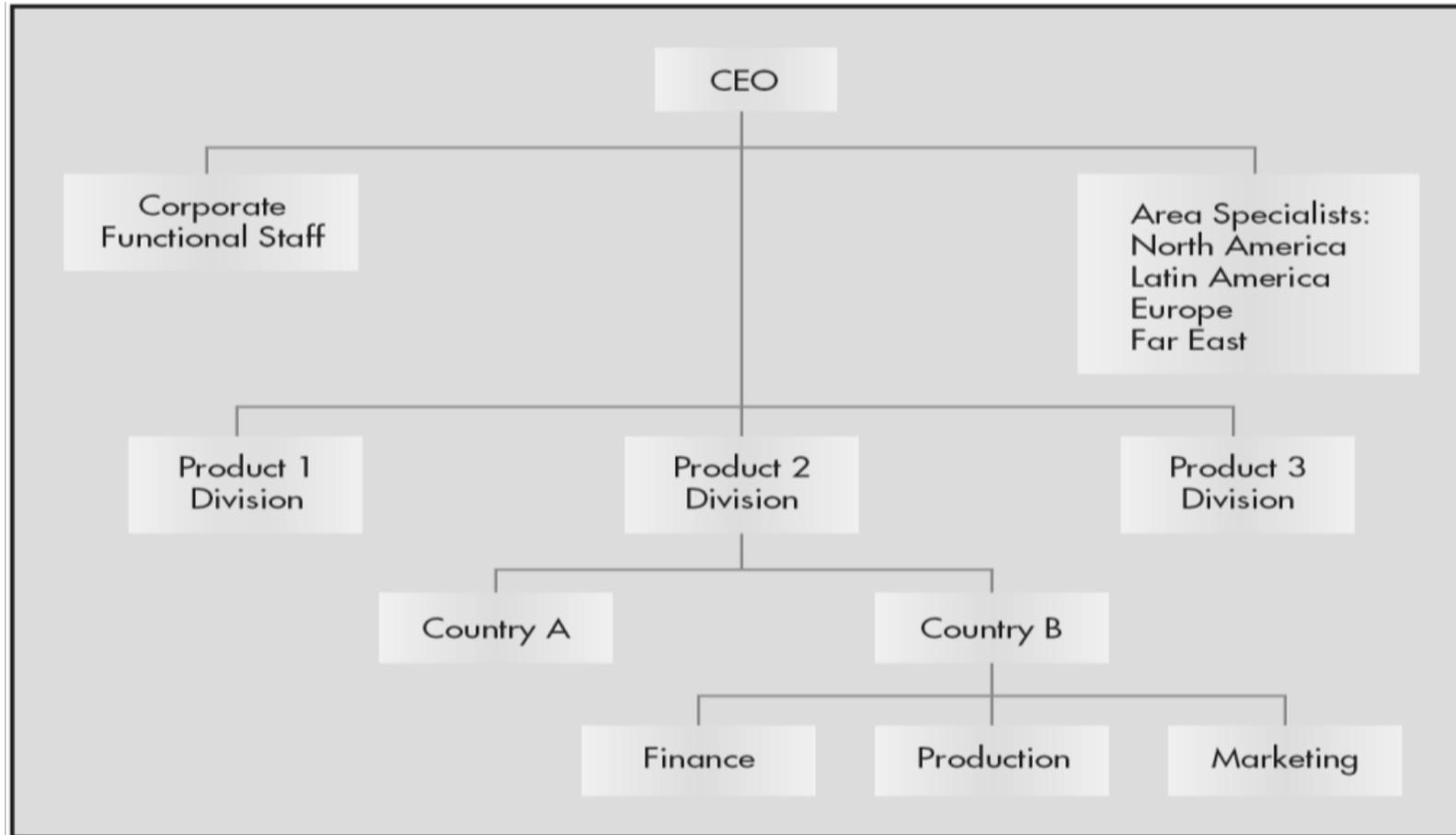
- Organized along functional, product, or geographic lines



Global Functional Structure

- Designed on the basis of the company's functions
- Allows for functional specialization and economies of scale
- Usually single product companies
- Used at the beginning of internationalisation
- No P&L for each product (impact on motivation)
- Needs collaborative cultures

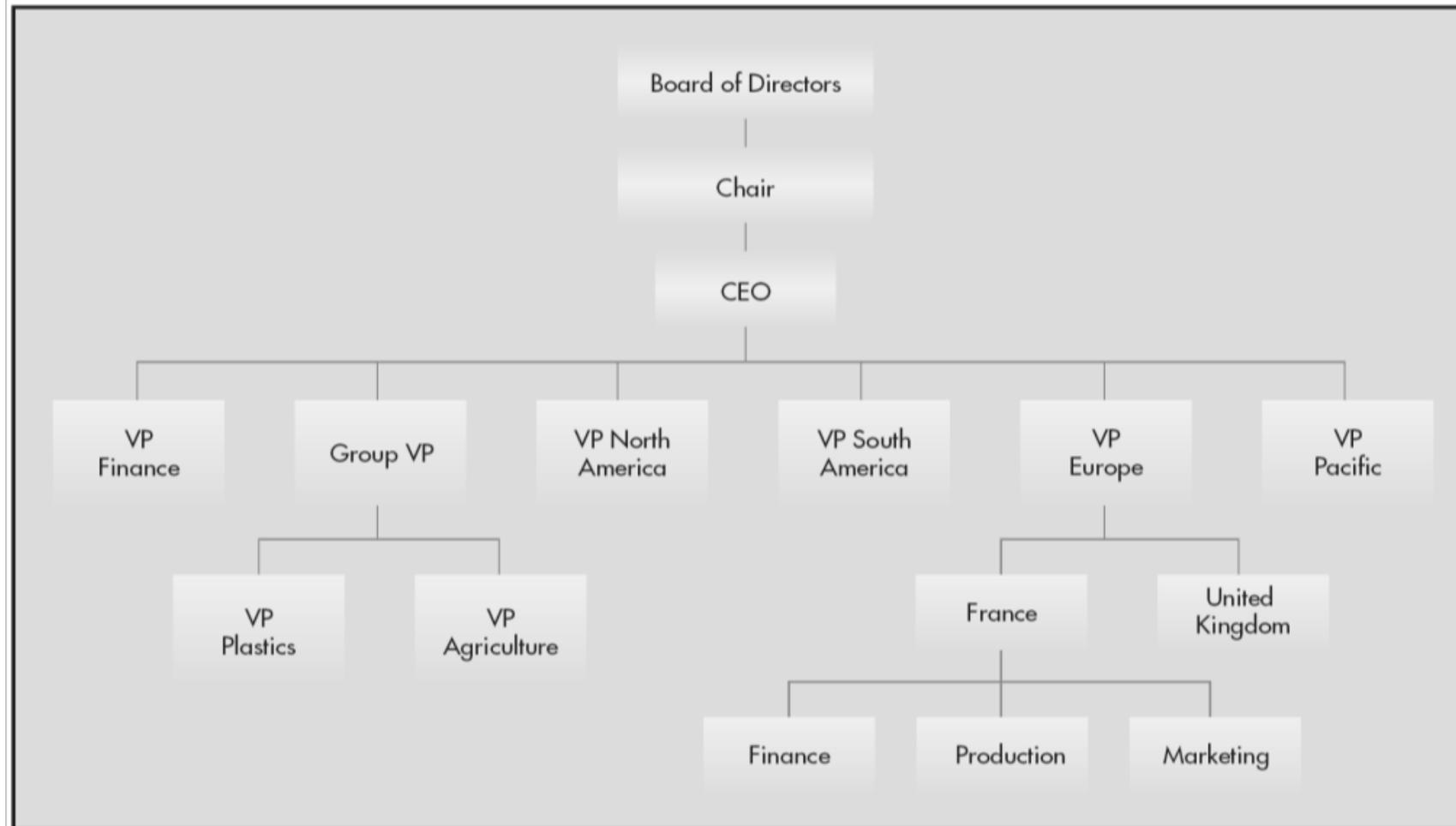
Global Product (Divisional) Structure



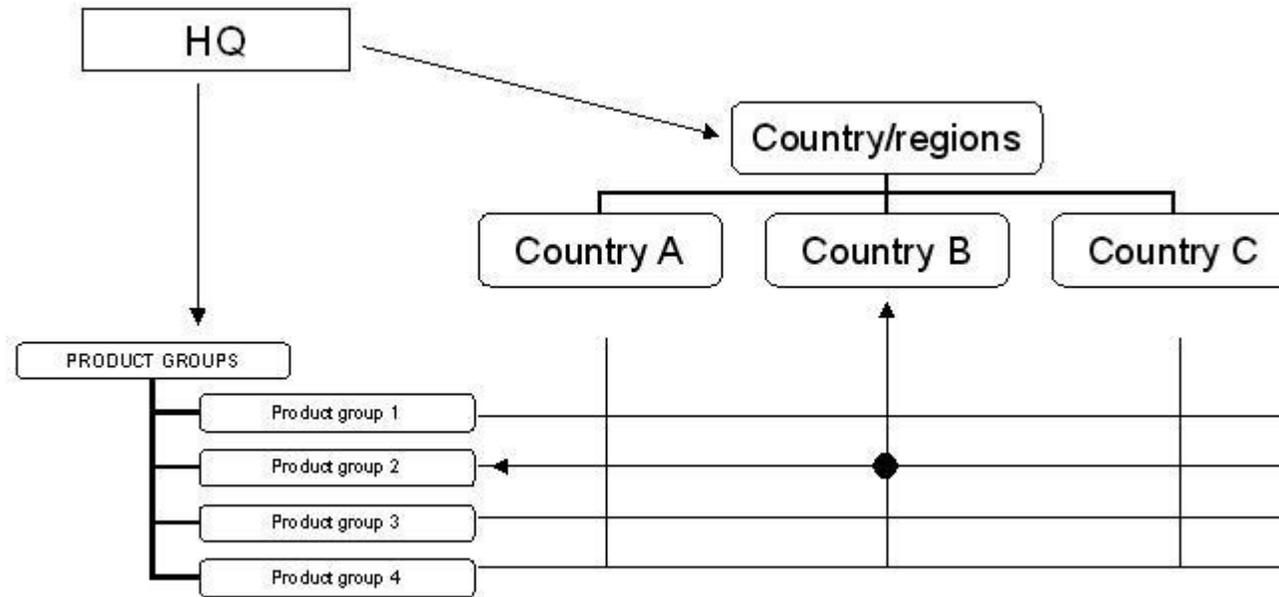
Global Product (Divisional) Structure

- P&L statement for every division
- Needs competitive cultures
- Used by Microsoft – changed to functional
- Heinz, previously using geographical structure, changed to global product structure

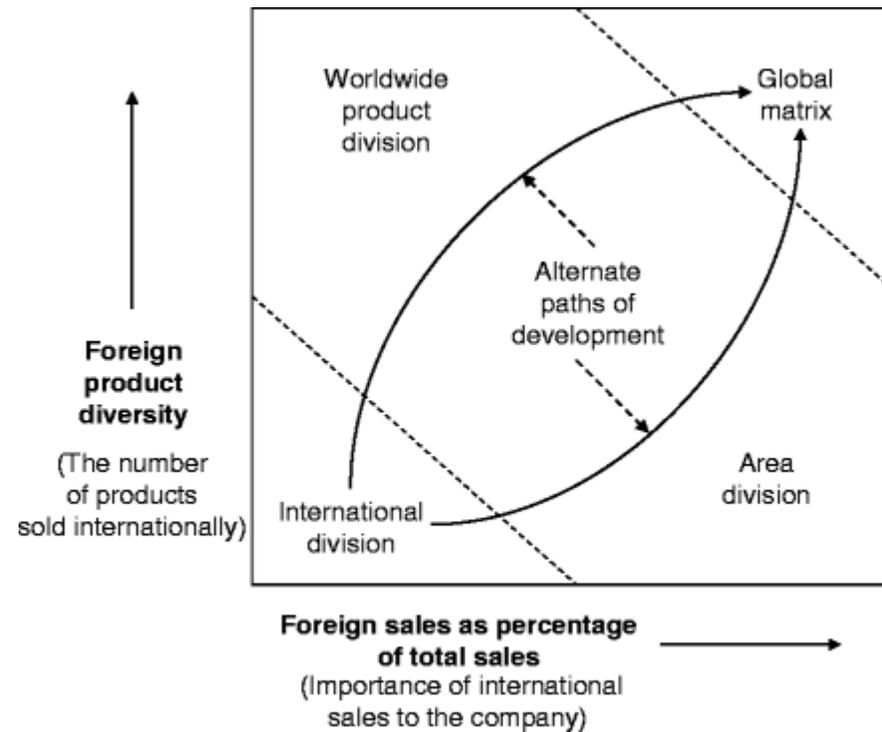
Global Geographic (Area) Structure



Matrix structure



Stopford-Wells model



Different approaches

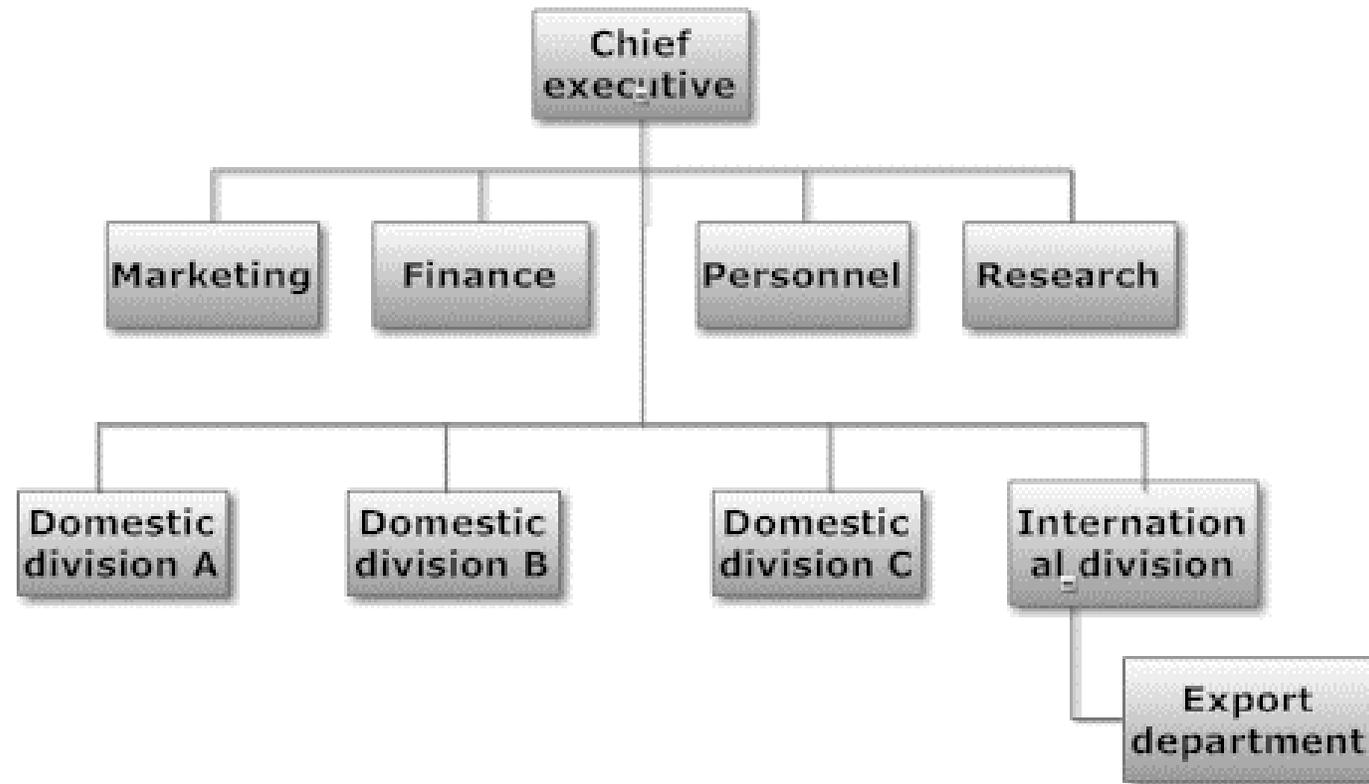
- One of the other approaches is that of organisational strategy
- Bartlett-Ghoshall

Bartlett-Ghoshal

Organisational Characteristics	Multinational	Global	International	Transnational
Configuration of assets and capabilities	Decentralised and nationally self-sufficient	Centralised and scaled globally	Sources of core abilities centralised; others decentralised	Dispersed, interdependent, and specialised
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent-company's strategies	Adapting and exploiting parent-company's abilities	Differentiated contributions by national units to integrated worldwide operations
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed and retained at centre <i>U7P78</i>	Knowledge developed at centre and transferred to overseas units	Knowledge developed jointly and shared worldwide

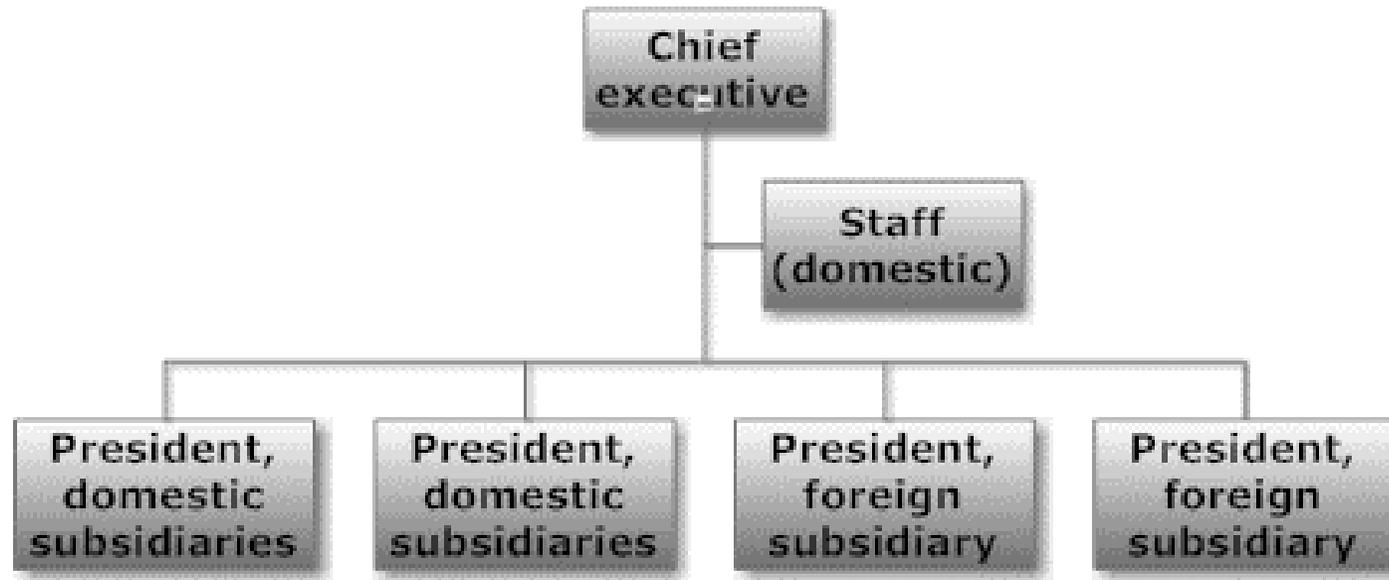
Source: Bartlett and Ghoshal (1989)

International



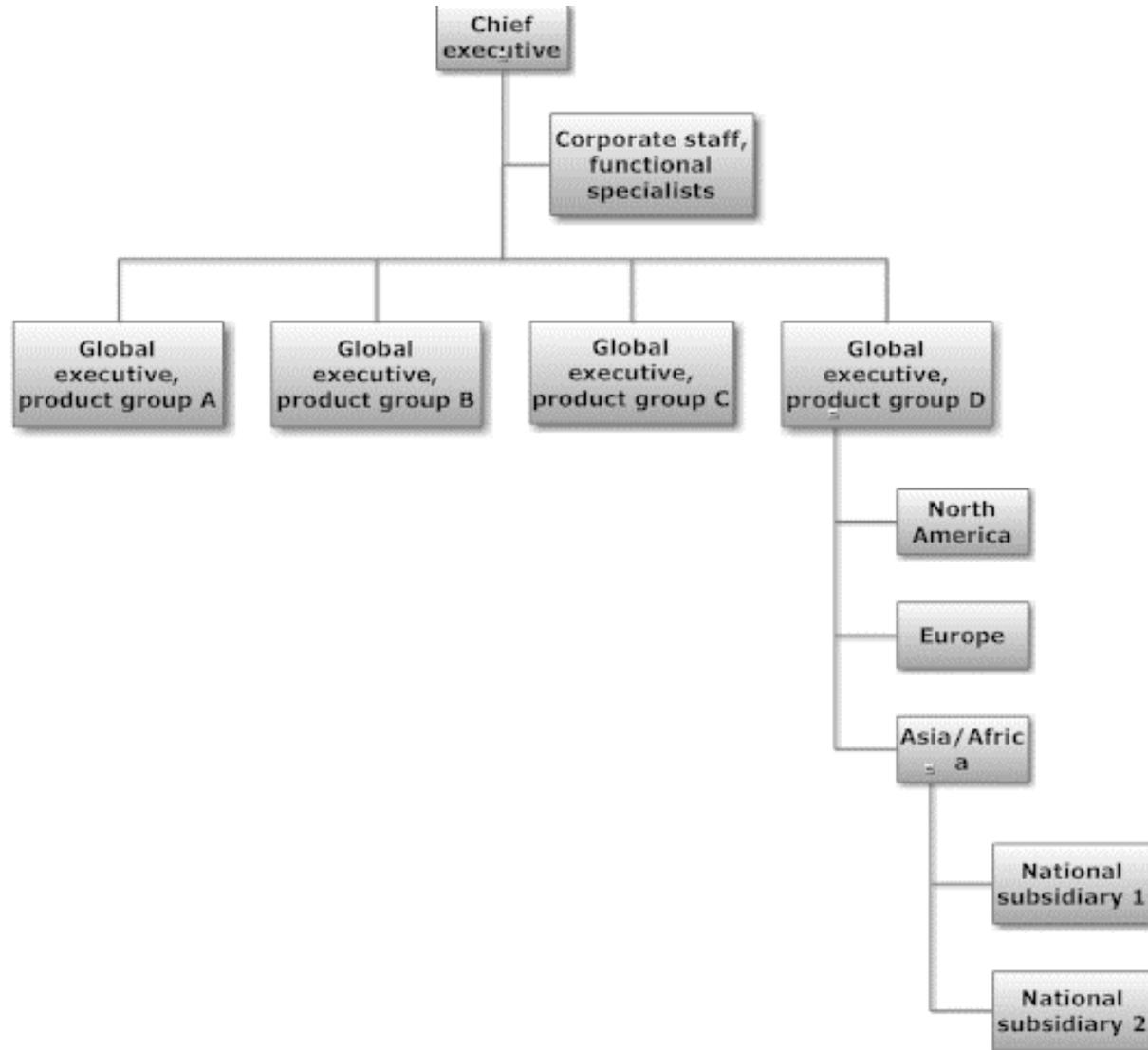
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Multinational



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Transnational

Attempts to combine:

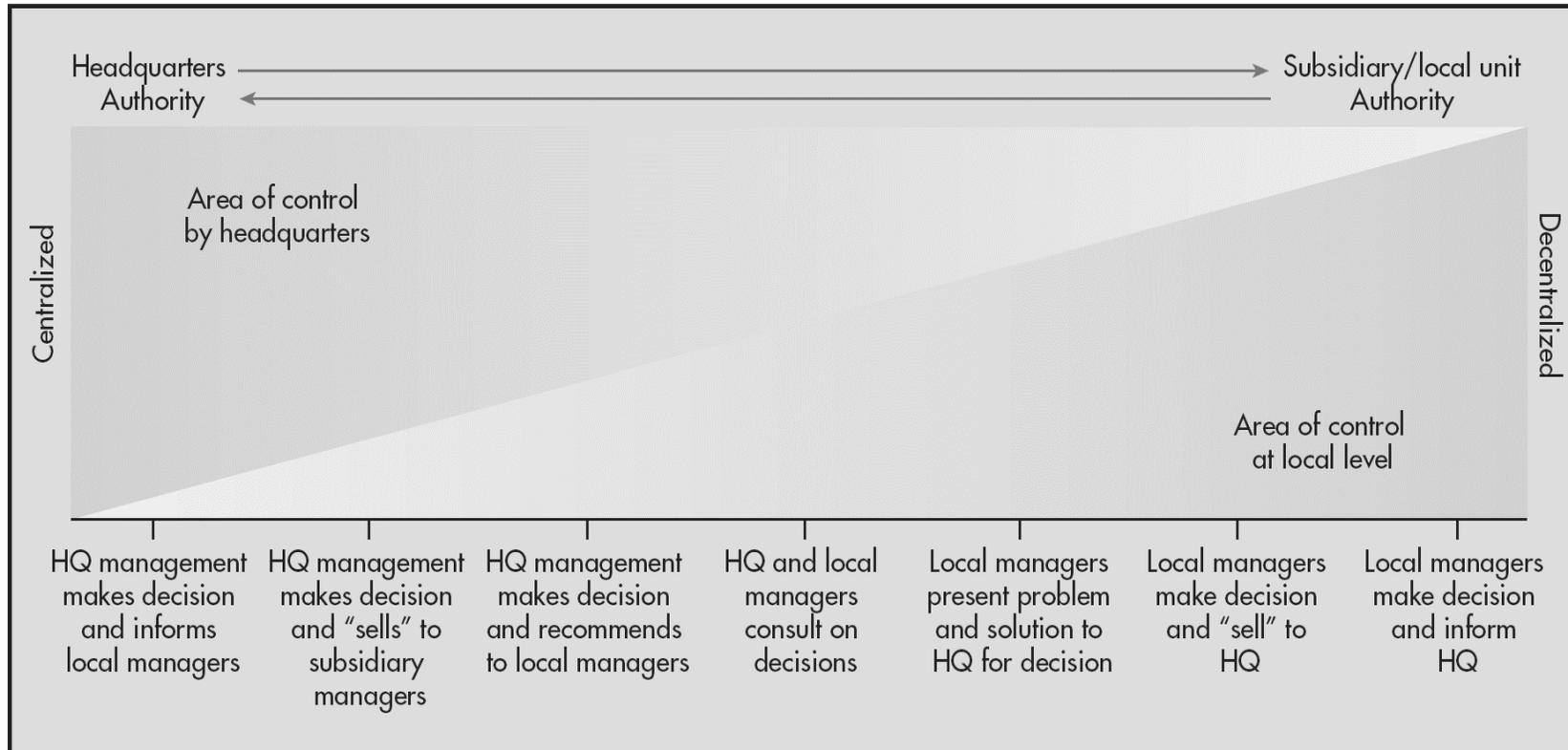
- The capabilities and resources of a MNC
- The economies of scale of a global corporation
- The local responsiveness of a domestic company
- The ability to transfer technology efficiently typically of the international structure

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Organising challenges

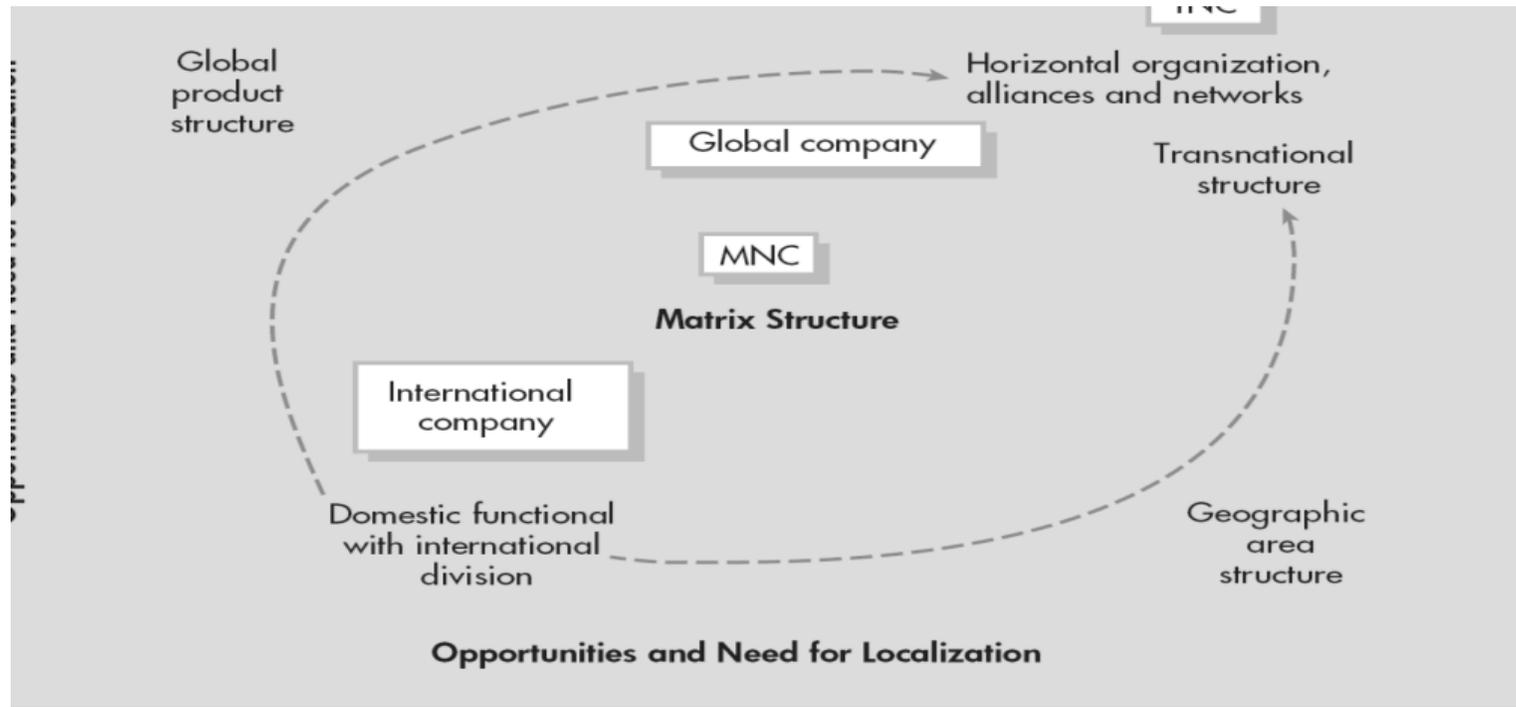
- Integration vs. differentiation
- Globalisation vs. localisation
- Centralisation vs. autonomy

Centralisation vs. autonomy



SOURCE: Based on and adapted from R. Tannenbaum and W. Schmidt; and A. G. Kefelas, *Global Business Strategy* (Cincinnati: South-Western, 1990).

Globalisation vs. localisation



RCE: Based on models by R. E. White and T. A. Poynter, "Organizing for Worldwide Advantage," *Business Quarterly* 54 (Summer 1989); John M. Stopford and Louis T. Wells, Jr., *Managing the International Enterprise* (New York: Basic Books, 1972); and C. A. Bartlett, "Organizing and Controlling Subsidiaries," *Harvard Business School Case Study*, no. 9 (March 1987): 365, 375.

Control Systems for Global Operations

Direct Coordinating Mechanism

- McDonald's in Moscow
 - Problem: quality control
 - Solution: built processing plant in Moscow and provided managerial training
- Other options: visits by head-office personnel and regular meetings

Indirect Coordinating Mechanism

- Examples: sales quotas, budgets, and financial tools and reports
- Three financial statements
 - One for accounting standards in host country
 - One for the standards in the home country
 - One for consolidation

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Thank you for attention!