IBS

Strategic Process and Organisation

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Session Objectives

• discuss the organisational challenges which multinationals face
• define and contrast basic forms of organisational structure
• review forms of multinational organisation
• discuss mechanisms for communications and control
• discuss leadership and the role of top management
Agenda

• challenges to the evolving global business
• features of basic forms of organisational structure
• managing the multinational structure for synergy and control
• video: Chris Bartlett
• discuss Percy Barnevik and ABB
• video: Thomas Gasser
Global organisational structure issues

• where are decisions made?
  – research and development
  – production
  – marketing
  – capital budgeting and finance

• how are results compared?

• centralise-decentralise?
Vertical Differentiation

• Concerned with where decisions are made.
  – Where is decision making power concentrated?

• Two Approaches
  – Centralization
  – Decentralization
Centralization

Advantages

- Facilitate coordination.
- Consistency of decisions.
- Easier to make changes.
- Avoids duplication.

Disadvantages

- Overburdened top management.
- Motivational research favors decentralization.
- Decentralization permits flexibility.
- Decentralization lets decisions be made closer to the information source.
- Decentralization can increase control.
Strategy and Centralization

• Global strategy - centralization.
• Multi-domestic firms - decentralization.
• International firms - centralize for core competencies (R&D) and decentralize for operating decisions.
• Transnational - use both.
Vertical Differentiation - Decentralization

• Top is over-burdened and makes poor decisions.
• Increased motivation at lower levels.
• Greater flexibility.
• Better on-the-spot decisions.
• Increased accountability and control.
Horizontal Differentiation

• How a firm divides itself into sub-units - value creation activities.
  – Demands too great for one individual.
  – Firm diversifies its product offerings.
• Typically: function, business area or geography.
Functional Structure

Top Management

Purchasing
- Buying units

Manufacturing
- Plants

Marketing
- Branch sales units

Finance
- Accounting units
Functional structure

Disadvantages
✓ functional area managers have limited perspective of organisation
✓ slow to respond to environmental change
✓ interdepartmental competition
✓ management succession?
✓ low mobility of 'experts' within company

• Advantages
☒ clear lines of control
☒ each department responsible for own costs and profitability
☒ accountability easily delegated
☒ maximum economies of scale within functions
Product division structure

Headquarters

Division product line A
  Department Purchasing
    Buying units

Division product line B
  Department manufacturing
    Plants

Division product line C
  Department marketing
    Branch sales units
  Department finance
    Accounting units
Product structure

**Advantages**
- Responsive to market demands
- Measurable profit centres
- Provides independence, useful when products have little interdependence

**Disadvantages**
- Product organisations may compete
- Loss of economies of scale
- Limits opportunities for synergy
Horizontal Differentiation
- Worldwide area

- Used by firms with
  - Little diversification.
  - Domestic structure based on function.
- Fits multi-domestic strategy because of local responsiveness capability.
Worldwide Area Structure

Figure 13.5

- Headquarters
  - North American area
    - Latin American area
  - European area
  - Middle East / Africa area
  - Far East area
Worldwide Area Structure

Advantages

☑️ responds quickest to changes in local conditions

Disadvantages

☒ If products become significantly different, coordination and control may be difficult
Horizontal Differentiation

- Usually firms start with an international division.
- Leads to coordination problems, and
- Conflict between domestic and foreign operations.
One Company’s International Division Structure

- Headquarters
  - Domestic division
    - General manager
      - Product line A
  - Domestic division
    - General manager
      - Product line B
  - Domestic division
    - General manager
      - Product line C
  - International division
    - General manager
      - area line
  - Functional units
    - Country 1
      - General manager
        - (product A, B, and / or C)
    - Country 2
      - General manager
        - (product A, B, and / or C)
  - Functional units

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Horizontal Differentiation
- Worldwide product division

- Used by firms with structure based on product divisions.
- Fits global strategy because of realization of experience curve and location economies.
A Worldwide Product Division Structure

Headquarters

Worldwide product group or division A
Worldwide product group or division B
Worldwide product group or division C

Area 1
(domestic)

Area 2
(international)

Functional units
The International Structural Stages Model

Figure 13.4

Foreign Sales as a Percentage of Total Sales

Worldwide Product Division

International Division

Global Matrix ("Grid")

Alternate Paths of Development

Foreign Product Diversity

Area Division
Formal Integrating Mechanisms

- Direct contact
- Liaison roles
- Teams
- Matrix structures

Increasing complexity of integrating mechanism
Formal Integrating Mechanisms

• Communications.
  – Inter and Intranets.

• Direct contact and liaison
  – requires leadership.

• Management schools.
  – creates networks.
  – imposes culture.
Informal Integrating Mechanisms

- Management networks.
- Organization Culture.
Control Systems

• Personal.
  – Personal contact.

• Bureaucratic
  – Rules and procedures.

• Output
  – Goal-setting.

• Cultural
  – Establishment of value system.
Matrix Structures

- **Multinational** and **Transnational** attempt to use a matrix structure.
- High failure rate because of bureaucratic (turf) problems.
A Global Matrix Structure

- Headquarters
- Area 1
- Area 2
- Area 3
- Product division A
- Product division B
- Product division C

Manager here belongs to division B and area 2
Matrix structure

Advantages
☑ flexible and responsive to changing markets
☑ encourages information sharing
☑ provides strategic perspective
☑ synergy

Disadvantages
☒ confused and conflicting control and communication
☒ groups and coalitions compete for resources
☒ political
Dow Chemical

• Triple matrix structure.
  – Function
  – Business
  – Geography

• Flexibility.
Where are decisions made?

research and development
production
marketing
capital budgeting and finance
Pressures for Cost Reduction and Local Responsiveness

- **Comapny A**: High Cost pressures, Low Pressures for local responsiveness
- **Company B**: Low Cost pressures, High Pressures for local responsiveness
- **Company C**: Generally reflects the position of most companies

Generally reflects the position of most companies.
Cost Reduction

• Desire to reduce costs by:
  – Mass production
  – Product standardization.
  – Optimal location production.

• Hard to do with commodity-type products.
  – products serving universal needs.

• Also hard where competition is in low cost producing location.

• International competition creates price pressures.

• Scale efficiency is becoming more complex...
Local Responsiveness

• Different consumer tastes and preferences.
• Different infrastructure and practice.
• Differences in distribution channels.
• Government demands.
Four Basic Strategies

Pressures for local responsiveness

- Global Strategy: High Cost pressures, Low International pressures
- Transnational Strategy: High Cost pressures, High International pressures
- International Strategy: Low Cost pressures, Low International pressures
- Multi domestic Strategy: Low Cost pressures, High International pressures
Industry characteristics

Cost pressures

High

Cement

Low

Branded package goods

Low

Pressures for local responsiveness

High

Consumer electronics

Telecommunications
International Strategy

• Go where locals don’t have your skills.
• Little adaptation. Products developed at home (centralization).
• Manufacturing and marketing in each location.
• Makes sense where low skills, competition, and costs exist.
Multi-domestic Strategy

• Maximize local responsiveness.
  – Customize the product and marketing strategy to national demands.
• Skill and product transfer.
• Transfer all value-creation activities, no experience curve rewards.
• Good for high local responsiveness and low cost reduction pressures.
Global Strategy

• Best use of the experience curve and location economies.
• This is the low cost strategy.
• Utilize product standardization.
• Not good where local responsiveness demand is high.
Transnational Strategy

• Christopher Bartlett and Sumantra Ghoshal
• Core competencies can develop in any of the firm’s worldwide operations.
• Flow of skills and product offerings occurs throughout the firm - not only from home firm to foreign subsidiary (global learning).
• Makes sense where there is pressure for both cost reduction and local responsiveness.
Convergence?

Cost pressures

High

Low

Pressures for local responsiveness

Global Strategy

Transnational Strategy

Multi domestic Strategy

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The Advantages and Disadvantages of the Four Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Advantages</th>
<th>Disadvantages</th>
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</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>Exploit experience curve effects</td>
<td>Lack of local responsiveness</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td>Exploit location economies</td>
<td>Lack of local responsiveness</td>
</tr>
<tr>
<td></td>
<td>Transfer distinctive competencies to Foreign Markets</td>
<td>Inability to realize location economies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to exploit experience curve effects</td>
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## The Advantages and Disadvantages of the Four Strategies

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<th>Disadvantages</th>
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</thead>
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<tr>
<td><strong>Multi-domestic</strong></td>
<td>Customize product offerings and marketing in accordance with local responsiveness</td>
<td>Inability to realize location economies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Failure to exploit experience curve effects</td>
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<tr>
<td></td>
<td></td>
<td>Failure to transfer distinctive competencies to foreign markets</td>
</tr>
<tr>
<td><strong>Transnational</strong></td>
<td>Exploit experience curve effects</td>
<td>Difficult to implement due to organizational problems</td>
</tr>
<tr>
<td></td>
<td>Exploit location economies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customize product offerings and marketing in accordance with local responsiveness</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reap benefits of global learning</td>
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# Interdependence, Performance Ambiguity, and the Costs of Control for the Four International Business Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Inter-dependence</th>
<th>Performance Ambiguity</th>
<th>Costs of Control</th>
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<tbody>
<tr>
<td>Multi-domestic</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>International</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Global</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Transnational</td>
<td>Very high</td>
<td>Very high</td>
<td>Very high</td>
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</table>
### Synthesis of Strategy, Structure and Control Systems

<table>
<thead>
<tr>
<th>Structure and control</th>
<th>Multi-domestic</th>
<th>International</th>
<th>Global</th>
<th>Transnational</th>
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</thead>
<tbody>
<tr>
<td><strong>Vertical differentiation</strong></td>
<td>Decentralized</td>
<td>Core competency; rest decentralized</td>
<td>Some centralized</td>
<td>Mixed centralized and decentralized</td>
</tr>
<tr>
<td>Worldwide area structure</td>
<td>Worldwide product division</td>
<td>Worldwide product division</td>
<td></td>
<td>Informal matrix</td>
</tr>
<tr>
<td><strong>Horizontal differentiation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for coordination</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td>Integrating mechanisms</td>
<td>None</td>
<td>Few</td>
<td>Many</td>
<td>Very many</td>
</tr>
<tr>
<td>Performance ambiguity</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td>Need for cultural controls</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
<td>Very high</td>
</tr>
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</table>
Centralised hub
Centralised federation
Decentralised federation
An integrated network
Strategy & structure

Need for Global Efficiency

Need for World-wide Innovative Capacity

Need for National Responsiveness
Strategy & structure

1. Need for Global Efficiency
2. Need for World-wide Innovative Capacity
3. Need for National Responsiveness
4. Functional Management
5. Business Management
6. Area Management
Percy Barnevik and ABB

- What are the main organisational challenges that ABB faces?
- What is the role of head office?
- How does your organisation’s head office operation compare to ABB’s?
Escaping the restructuring 'merry-go-round

- upgrading personnel
- broaden management
- improve infrastructure
  - information technology
  - communications
- build a supportive culture
- articulate goals & values
- modify reward systems
- role models
Summary

• organisational challenges which multinationals face include....

• the role of top management and head office will become....

• context, process and content are...