



# The Organization of International Business

## Agenda

1. Opening case
2. Organizational architecture
  - Structure
  - Incentives and controls
  - Processes
  - Culture
3. Organizational change
4. Closing case

## 1. Opening Case

- One of world's oldest multinational corporations, with revenues in excess of \$46 billions.
- It produces Detergents, Personal care products and Food products.

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## Opening Case

Amora  
Axe  
Becel  
Bertolli  
Blue Band  
Calvé  
Cif  
Close Up  
Comfort  
Country Crock

### BRANDS

Domestos  
Doriana  
Dove  
Flora  
Heartbrand  
Hellmann's  
Knorr  
Lifebuoy  
Lipton

Lux  
Omo  
Pond's  
Radiant  
Rama  
Rexona  
Signal  
Slim-Fast  
Sunsilk  
Surf  
Vaseline  
Wish-Bone

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## Opening Case

- Historically organized on a decentralized basis: local managers were running local subsidiaries from production to marketing.
- By the mid 90s, trade barriers felt down and both Nestlé and P&G were more successful in
  - Building global brands
  - Reducing cost structure
  - Launching products in several markets and quickly

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## Opening Case

- In 1996 Unilever introduced a structure based on regional business groups, each of them divided into divisions focusing on a specific category of product
- Each group was asked to reduce costs and speed up new product introduction
  - Plants were cut
  - Products, packaging and marketing have been harmonized

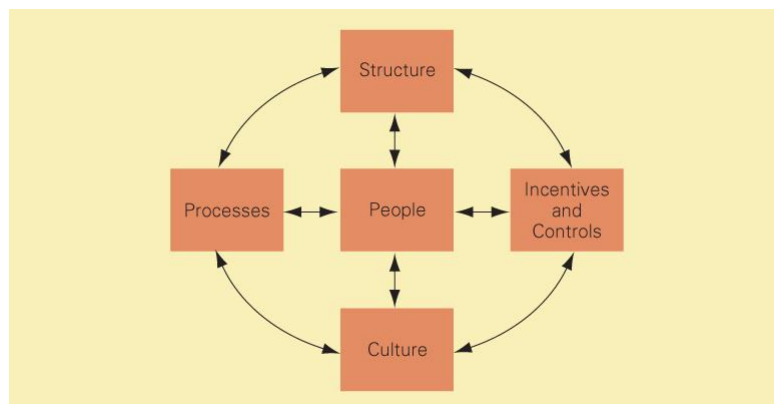
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## Opening Case

- In 2000
  - Other plants were closed
  - Brand were cut (75%!  
From 1600 to 400)
  - Two global divisions have  
been established (Food Vs  
Home and Personal care)
  - Within each group  
regional business groups  
focused on all operations

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## 2. Organizational Architecture



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## Organizational Architecture

- Organizational **structure** refers to
  - The formal division of the organization into sub-units
  - The location of decision-making responsibilities within that structure
  - The establishment of integrating mechanisms to coordinate the activities of subunits
- **Control systems** are the metrics used to measure the performance of sub-units and make judgments about how well managers are running them
- **Incentives** are the devices used to reward appropriate managerial behavior

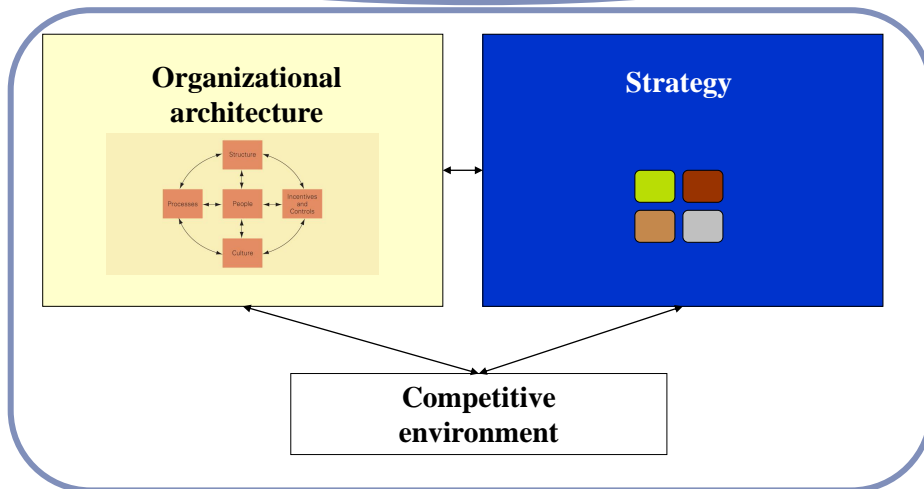
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## Organizational Architecture

- **Processes** are the manner in which decisions are made and work is performed within the organization
- **Organizational culture** refers to the norms and value systems that are shared among the employees of an organization
- **People** are not just the employees of the organization; the term refers also to the strategy used to recruit, compensate, and retain those individuals and the type of people they are in terms of their skills, values, and orientation (next section, with AB)

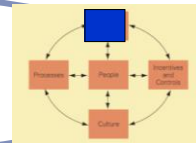
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## Conditions for superior profitability



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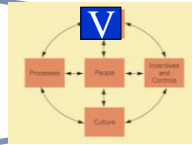
## Organizational Structure



- It refers to
  - **Vertical differentiation:** the location of decision-making responsibilities within a structure (**V**)
  - **Horizontal differentiation:** the formal division of the organization into sub-units (**H**)
  - **Integrating mechanisms:** mechanisms for coordinating sub-units (**I**)

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## Vertical Differentiation



- **Centralization:**

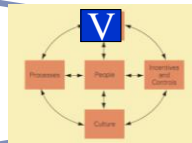
- Facilitates coordination
- Ensures decisions consistent with organization's objectives
- Gives TMT the means to bring about organizational change
- Avoids duplication of activities

- **Decentralization:**

- Increases motivation
- Permits greater flexibility (rapid responses to environmental changes)
- Can result in better decisions (better information)
- Can increase control (less excuses for poor performance)

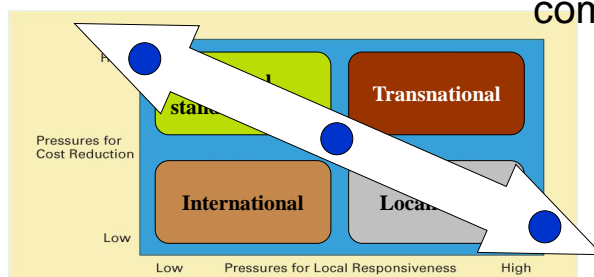
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## Vertical Differentiation



Centralization

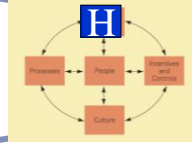
Centralization of decisions affecting core competencies



Decentralization

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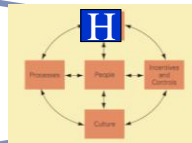
## Horizontal Differentiation: The Design of Structure



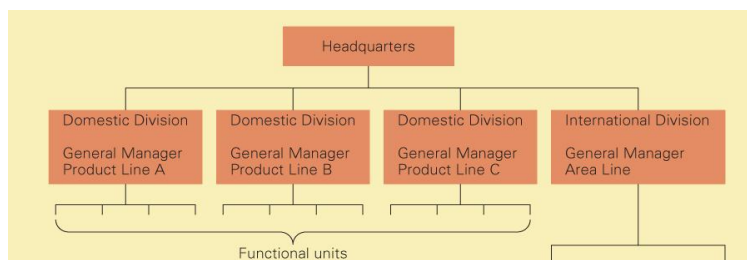
- **Horizontal differentiation is concerned with how the firm decides to divide itself into sub-units**
- Domestic Firms starts with **elementary** structures, and then usually pass to **functional** or **divisional** (on the basis of the types of business or the geographical areas) structures.
- When they prove viable to **manufacture** the product abroad, the structure get more complex...

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## The International Division



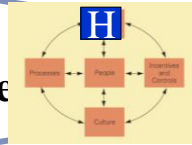
- The result could be the establishment of an International Division, that is in turn organized with a functional or a divisional structure.



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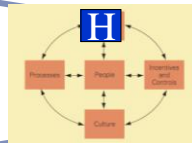
## Problems with the International Division Structure



- Potential for conflict and coordination problems between domestic and foreign operations, that result in a lack of coordination
- Heads of foreign subsidiaries are not given as much voice in the organization as the heads of domestic functions, because there is an international division to represent the interests of all countries to headquarters
- In order to face these problems firms choose one of the following structures
  - Worldwide product divisional structure
  - Worldwide area structure

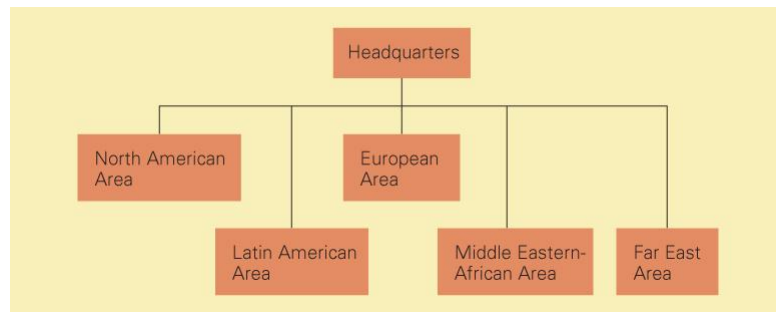
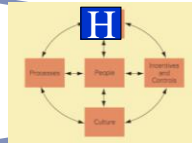
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## The International Structural Stages Model



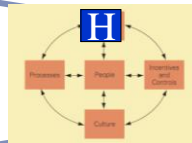
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## Worldwide Area Structure



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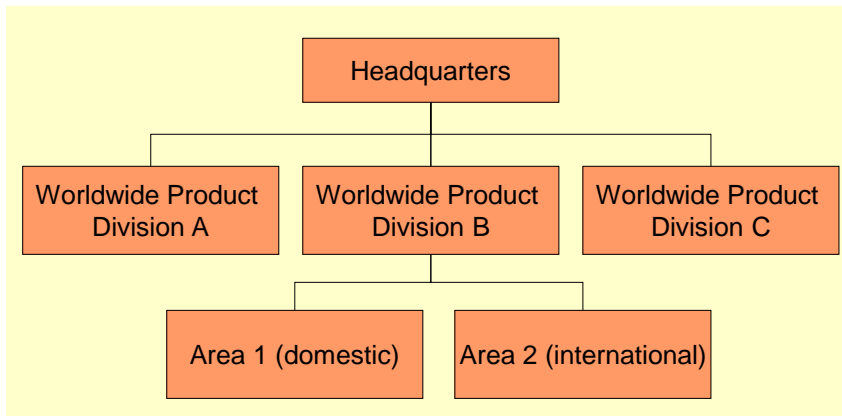
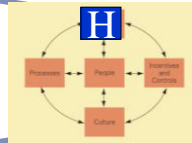
## Worldwide Area Structure



- Favored by firms with *low degree of diversification*
- Domestic structure based on *functions*
- World is divided into autonomous geographic areas
- Operational authority decentralized, facilitating *local responsiveness*
- Consistent with *localization* strategy
- Fragmentation of organization can occur, raising costs and inhibiting competence transfer

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## Worldwide Product Divisional Structure



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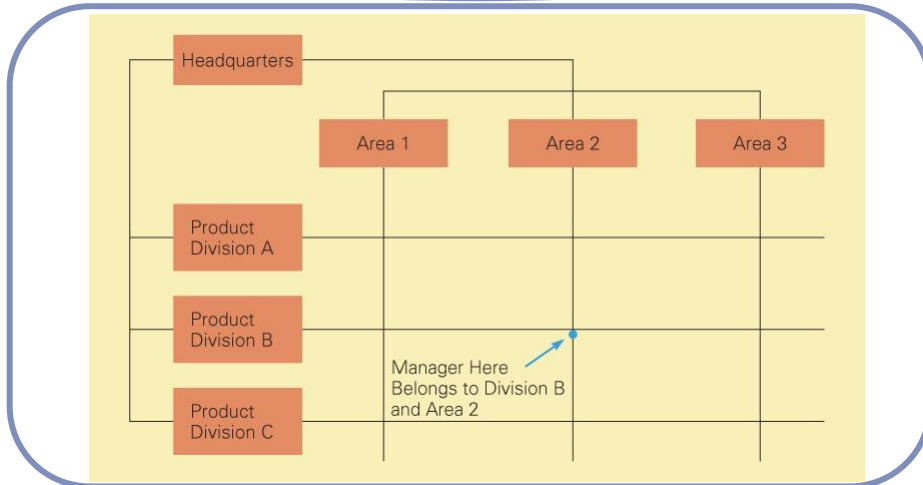
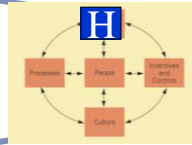
## Worldwide Product Divisional Structure



- Adopted by firms that are reasonably *diversified*
- Domestic firm structure based on *product divisions*
- Value creation activities of each product division are coordinated worldwide
  - to realize location and learning economies
  - fo facilitate transfer of core competencies
- Consistent with *global standardization* or *international strategy*
- Problem: area managers have limited control, subservient to product division managers, leading to lack of local responsiveness

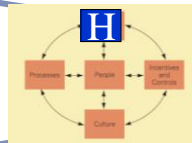
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## Global Matrix Structure



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## Global Matrix Structure



- Two dimensions: product division and geographic area
- Product division and geographic areas given equal responsibility for operating decisions
- Helps to cope with conflicting demands of earlier strategies (trade off between local responsiveness and cost savings)
- Consistent with *transnational* strategy
- Problems
  - It could slow decision making
  - Raise of conflicts between areas and product divisions
  - Difficulties in accounting

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## Matrix structure at

- Dow was successful also thanks to its matrix structure (functions, businesses and geography)
- Trade barriers in the industry disappeared in the late 70s and price-based competition started

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## Dow

Difficulties appeared initially:

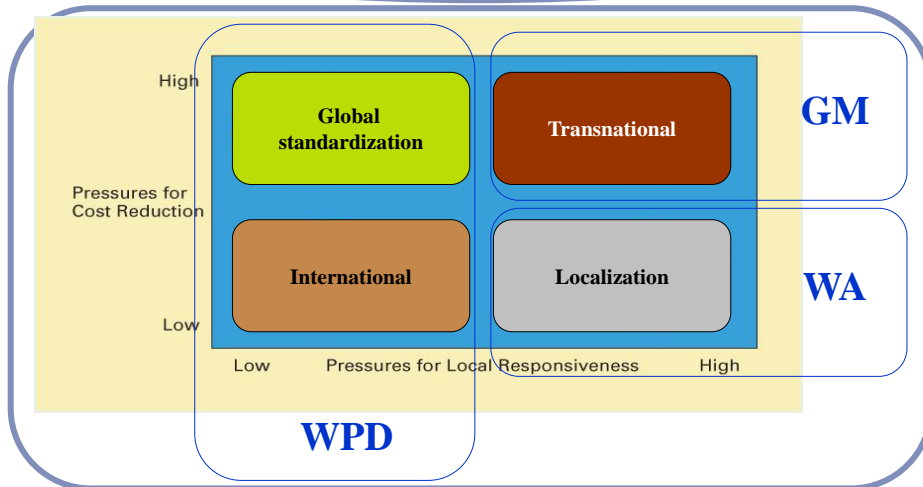
- Confusion
- Conflicts
- Bureocracy
- Overlaps
- Lack of accountability

To make it more flexible, they identified priorities among bosses

When in the mid 90s Dow refocused on chemicals, they passed to a global business division

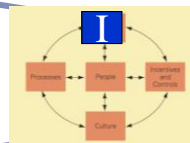
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## Strategy-Structure consistency

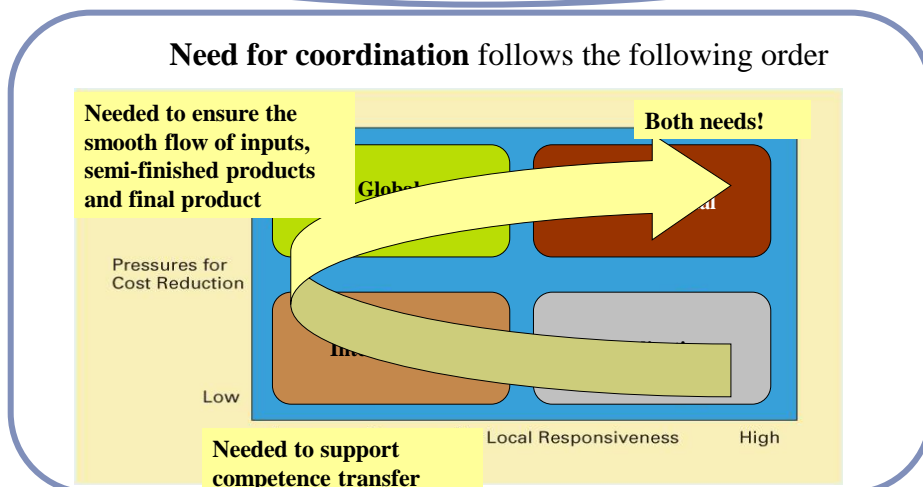


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## Integrating Mechanisms

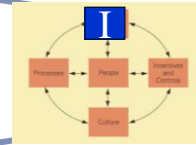


Need for coordination follows the following order

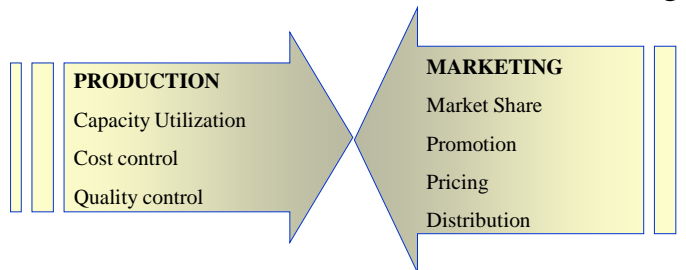


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## Impediments to Coordination



- Different orientations due to different tasks and goals



- Differences in nationality, time zone, and distance
- Particularly problematic in multinational enterprises with their many sub-units both home and abroad

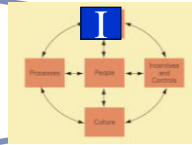
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## The Philips integration difficulties

When Philips NV developed its VCR system (V2000), the North American subsidiary adopted the VHS format!

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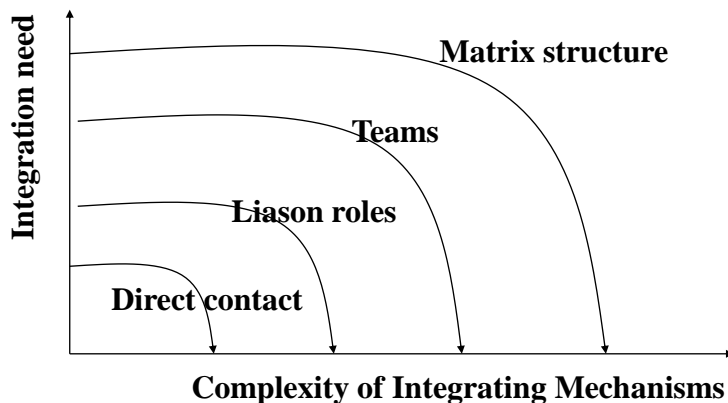
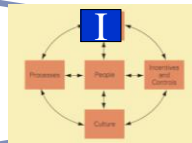
## Formal Integrating Systems



- **Direct contact** between sub-unit managers: they contact each other whenever they have a common concern (consistent in case of common orientation)
- **Liaison roles**: individuals assigned responsibility to coordinate with another sub-unit on a regular basis
- Temporary or permanent **teams** from sub-units to achieve coordination (typically used to introduce new products: Mktg+R&D+Production)
- **Matrix structure**: all roles are viewed as integrating roles

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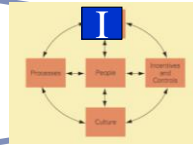
## Formal Integrating Systems



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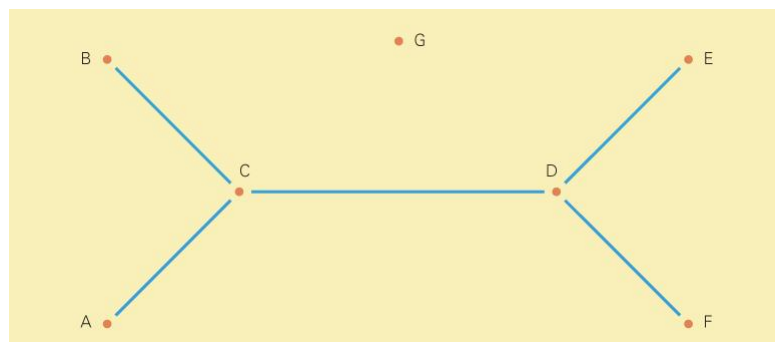
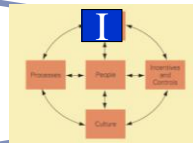
## Informal Integrating Mechanisms



- **They Consist in the building of Knowledge networks**, non-bureaucratic flows of information that embrace as many managers as possible
- Two techniques used to establish networks
  - **Information systems** (intranet, e-mail, videoconferences, search engines, newsletters, forum)
  - **Management development policies**
    - Rotating managers through various sub-units on a regular basis
    - Management education programs
- They works if supported by an organization culture that values teamwork and if managers share a strong commitment to the same goal.

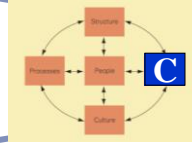
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## Informal Integrating Mechanisms: a simple management network



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## Control Systems



**Personal controls:** control by personal contact with subordinates (from SMEs to GE)

**Bureaucratic controls** (systems of rules and procedures, mainly budgets and spending rules)

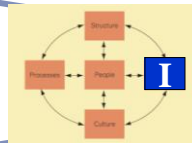
### Types

**Output controls** (profitability, productivity, growth, market share and quality). Established through negotiation, they foster a system of “management by exceptions”.

**Cultural controls:** exist when employees “buy into” the norms and values of the firm. They reduce the need of formal controls (and their costs!)

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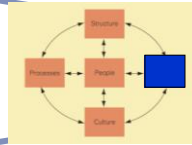
## Incentives



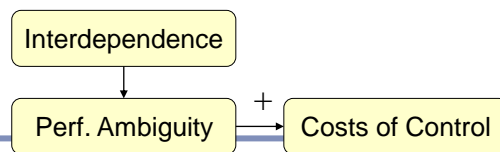
- **Incentive systems**
  - Refer to devices used to reward appropriate behavior
  - Are closely tied to performance metrics used for output controls
- They should be linked to
  - output that the employee can influence
  - profit of the entire firm, in order to increase cooperation between managers
- They should take account of national differences in institutions and culture
- The consequences of an incentive system should be understood (e.g. incentives on productivity may reduce average quality)

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## Performance Ambiguity

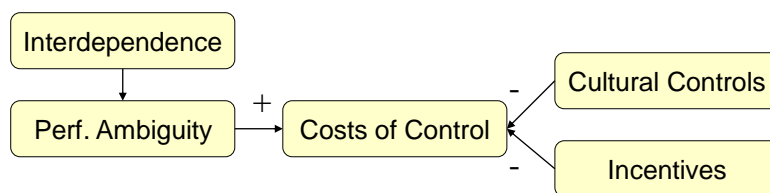
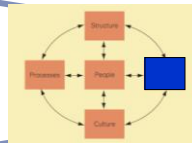


- It is a concept useful to understand the relationship between international strategy, control systems and incentive systems
- It exists when the causes of a subunit performance are not clear
- Caused by high degree of **interdependence** between sub-units within the organization
- It raises the “**costs of control**”, because TMT must devote more time to monitor and evaluate performance of sub-units



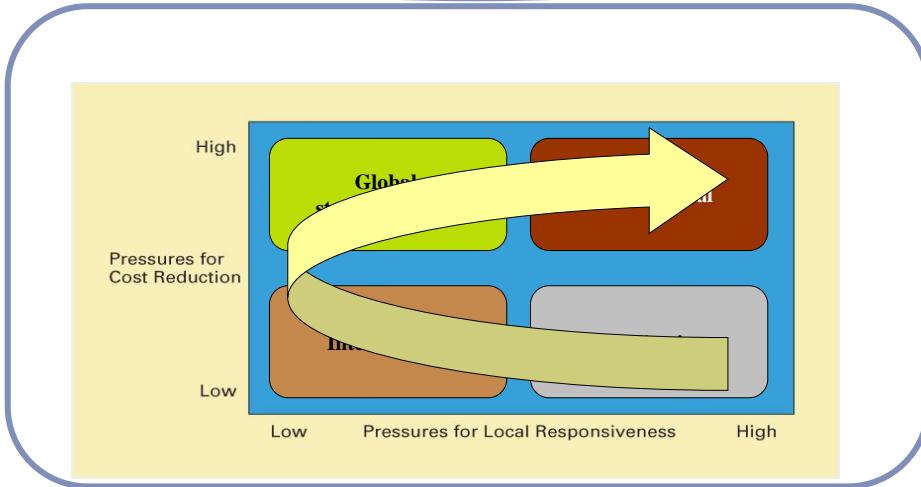
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## Implications for Control and Incentives



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## Interdependence, Performance Ambiguity and costs of control in different strategies



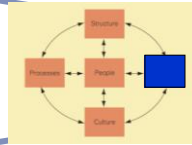
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## Lincoln Electric

The world leading company in the production of arc welding equipment

Its success has been linked to employee productivity, in turn related to a strong organizational culture and an incentive system based on piecework

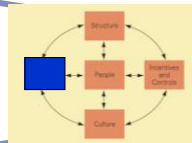
## Incentives at Lincoln



- Since 1907, workers receive no fixed salary; they are responsible for quality and must repair any defects
- They are rewarded a semiannual bonus based on merit ratings (in turn based on productivity and quality)
- Lincoln has a lower cost structure and higher payed workers
- Since the '80s Lincoln expanded in Europe and Asia, acquiring firms. In unionized environments, such a system is not legal, nor culturally accepted.

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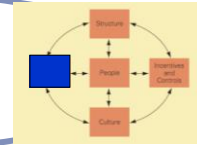
## Processes



- Processes are the manner in which decisions are made and work is performed
- They can be at the core of success (six sigma and workout at GE)
- They cut across national boundaries as well as organizational boundaries
- They better work in companies where
  - Culture is oriented to cooperation
  - Integrating systems are well developed
  - Incentives systems reward cooperation

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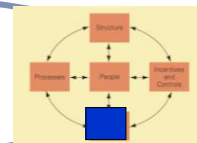
## Processes



- They can be developed anywhere within the firm's global operations network
- In the late '70s HP adopted quality management processes ahead of many US peers because it had a Japanese subsidiary, Yokogwa Hewlett Packard, where these practices were developed. Then TQM was transferred to the whole global network of operations

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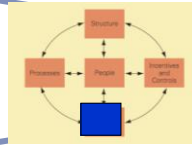
## Organizational Culture and its Sources



- Values and norms shared among an organization
  - **Values:** ideas about what is believed to be good, right, desirable
  - **Norms:** rules and guidelines that prescribe appropriate behavior in particular situation
- **Sources**
  1. National culture (e.g. US = individualisms; Japan = group cooperation, reciprocal obligations, harmony)

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## Organizational Culture and its Sources

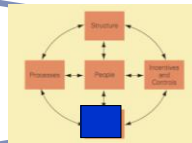


- Sources
  - 2. Founders and Leaders (e.g. Konosuke Matsushita)

- National service through industry
- Fairness
- Harmony and cooperation
- Struggle for betterment
- Courtesy and humility
- Adjustment and assimilation
- Gratitude

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## Organizational Culture and its Sources

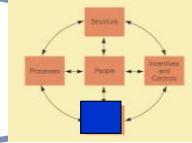


- Sources
  - 3. History of the enterprise (e.g. Philips' value of subsidiaries independence)

During WW2 Holland was occupied by the Germans. With the head office in occupied territories, power was devolved to subsidiaries

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## Organizational Culture and its Sources



- Sources

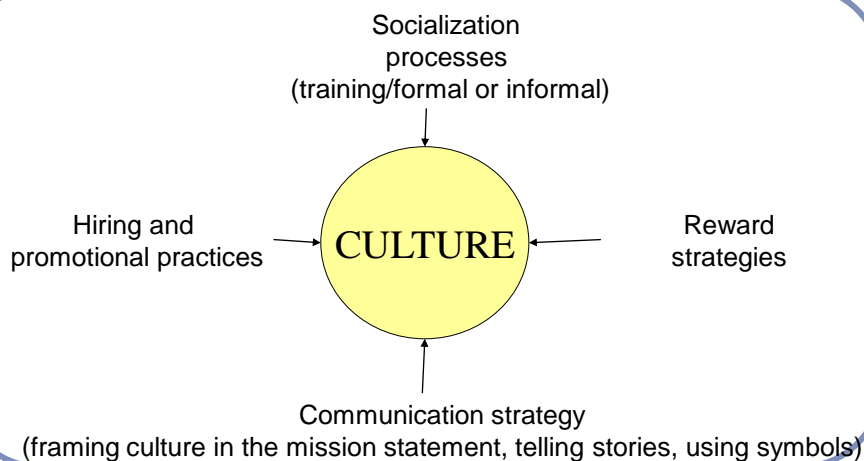
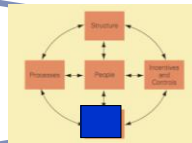
4. Decisions that result in high performance (e.g. 3M's value of giving some rein to experimentation)

In the 20's Richard Drew, young laboratory assistant, was able to convince the President Mc Knight to launch the "sticky tape", initially to be used in the automobile industry to mask parts of car during painting.

From then on, the rule of 15% was adopted.

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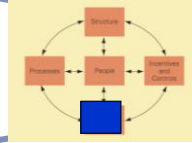
## Organizational Culture and its Maintenance



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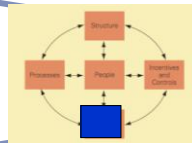
## Culture and Performance



- A “Strong” Culture is not always good

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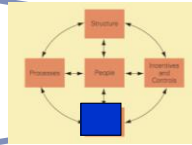
## Culture and Performance



- A “Strong” Culture does not necessarily bring to higher performance (e.g. GM in the '80s had a strong culture, that discouraged employees from taking risks)
- Culture appropriateness is context dependent (e.g. IBM's strong culture based on “consensus-based decision making” was fine in the '80s, but in the '90s it reduced speed, flexibility and risk-taking necessary to cope with competitors)

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## Culture and Performance



- Culture must match the rest of organizational architecture's elements, strategy and environment (e.g. Lincoln Electric: productivity culture + low cost strategy + highly competitive environment)
- Culture does not necessarily translate across borders (e.g. LE)
  - Establishing new subsidiaries: it is easier to establish a culture rather than change it (e.g. LE)
  - Devoting a lot of time and efforts in transmitting culture (e.g. MTV)
  - Adapting culture to national differences (e.g. no company songs neither morning group exercise sessions in western subsidiaries of Japanese companies)

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## Synthesis: Strategy and Architecture

Structure and Controls	Strategy			
	Localization	International	Global Standardization	Transnational
Vertical Differentiation	Decentralized	Core competency more centralized; Rest decentralized	Some centralization	Mixed centralization and decentralization
Horizontal Differentiation	Worldwide area structure	Worldwide product divisions	Worldwide product divisions	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

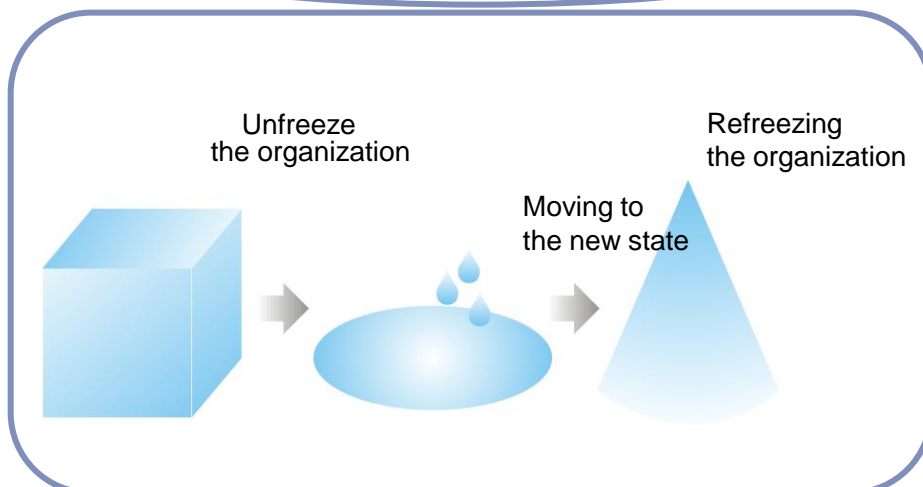
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### 3. Organizational Change

- International firms need to periodically alter their architecture to conform to changes in environment and strategy
- Hard to achieve due to organizational 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

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### Lewin's model for Organizational Change



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## Lewin's model for Organizational Change

- **Unfreeze**
  - Create a new vision
  - Share the vision with TMT
  - Announce change
- **Refreeze**
  - Celebrating change
  - Education and hiring
  - Controls and incentive consistent with the new state
- **Moving to the new state**
  - Change architecture
  - Eliminate obstacles
  - Give incentives to change

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## 4. Closing case

**Black&Decker**

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