

International Business Economics

6. The Organization of International Business



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Organizational Architecture

Organizational architecture is the totality of a firm's organization:

1. Organizational structure

- Location of decision-making
- Division into subunits
- Integrating mechanisms

2. Control systems and incentives

- **Control systems:** metrics to measure performance
- **Incentives:** to reward managerial behavior

3. Processes, organizational culture, and people

- **Processes**
- **Organizational culture:** norms and values
- **People**

Organizational Architecture

- The elements of the organizational architecture must be consistent
- the organizational architecture must fit the strategy
- the strategy and architecture must be consistent with competitive conditions

Organizational Structure

- Organizational structure:
 1. **Vertical differentiation:** location of decision-making
 2. **Horizontal differentiation:** formal division into sub-units
 3. **Integrating mechanisms**

Vertical differentiation

- **Centralized decision-making.** Advantages
 - Coordination
 - Decisions consistent with the organization's objectives
 - Means to produce organizational change
 - Avoids duplication of activities
- **Decentralized decision-making.** Advantages
 - Reduces the burden of centralized decision-making
 - Motivates individuals
 - Flexibility
 - Can increase control

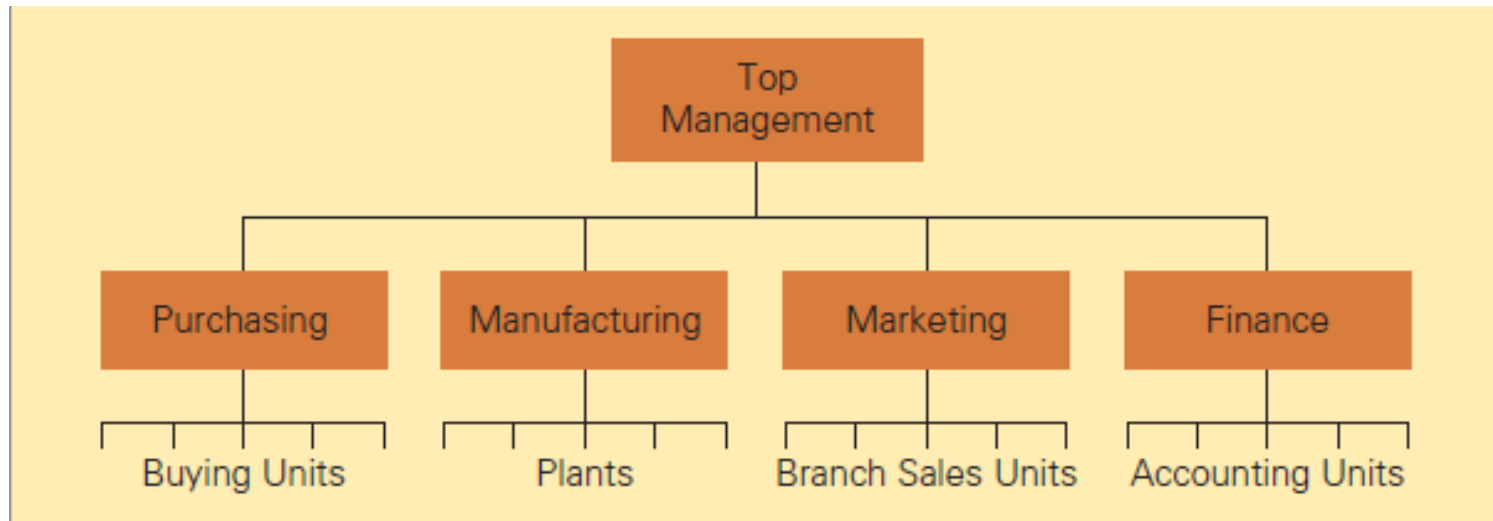
Horizontal differentiation

- **Horizontal differentiation:** how the firm divides into sub-units

Horizontal differentiation

- **Functional structure**
 - Coordinated and controlled by top management
 - Decision-making is centralized

A Typical Functional Structure



Source: Hill (2014)

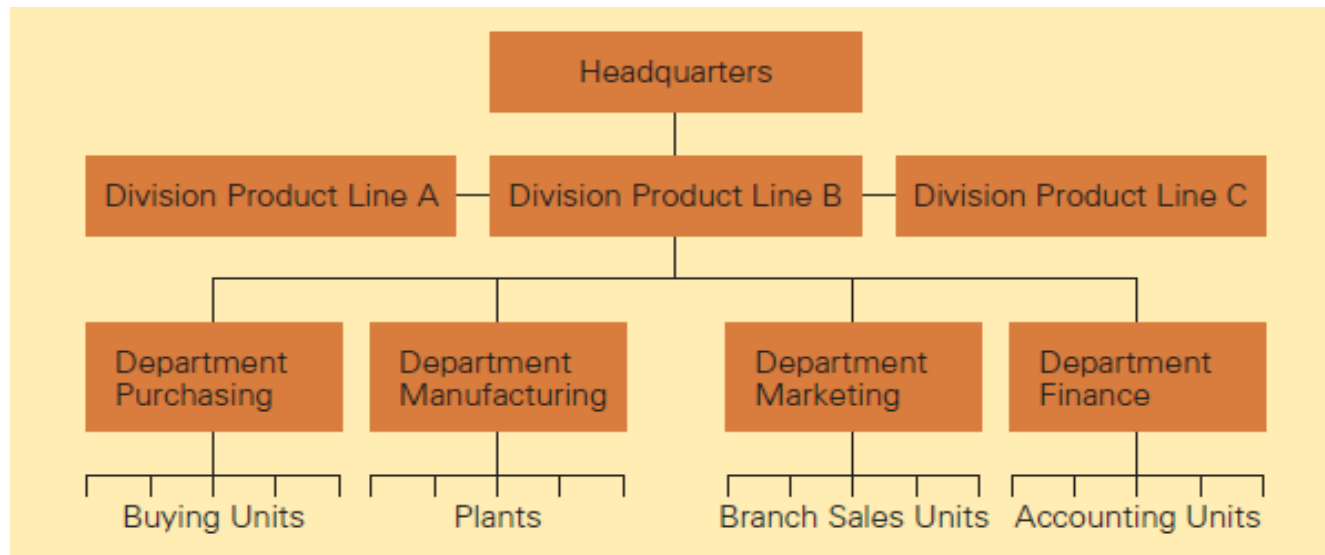
Horizontal differentiation

- **Product divisional structure**

- Each division is responsible for a product line
- Headquarters control the overall strategic direction

I.e.: Philips (lighting, consumer electronics, industrial electronics and medical systems)

A Typical Product Divisional Structure



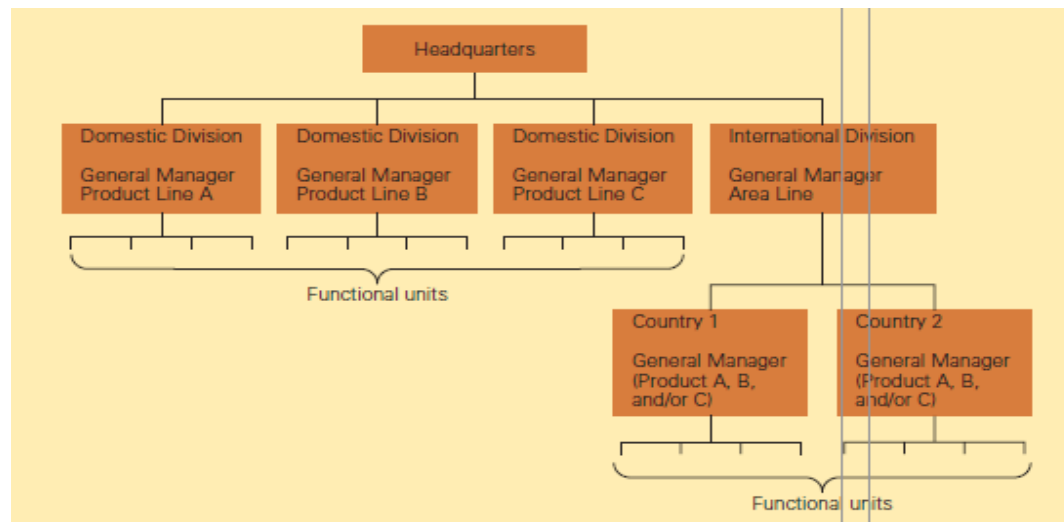
Source: Hill (2014)

Horizontal differentiation

An international division

- It tends to be organized on geography
 - For each country/market, the firm tends to replicate its structure
 - Potential for coordination problems between domestic and foreign operations

One Company's International Divisional Structure



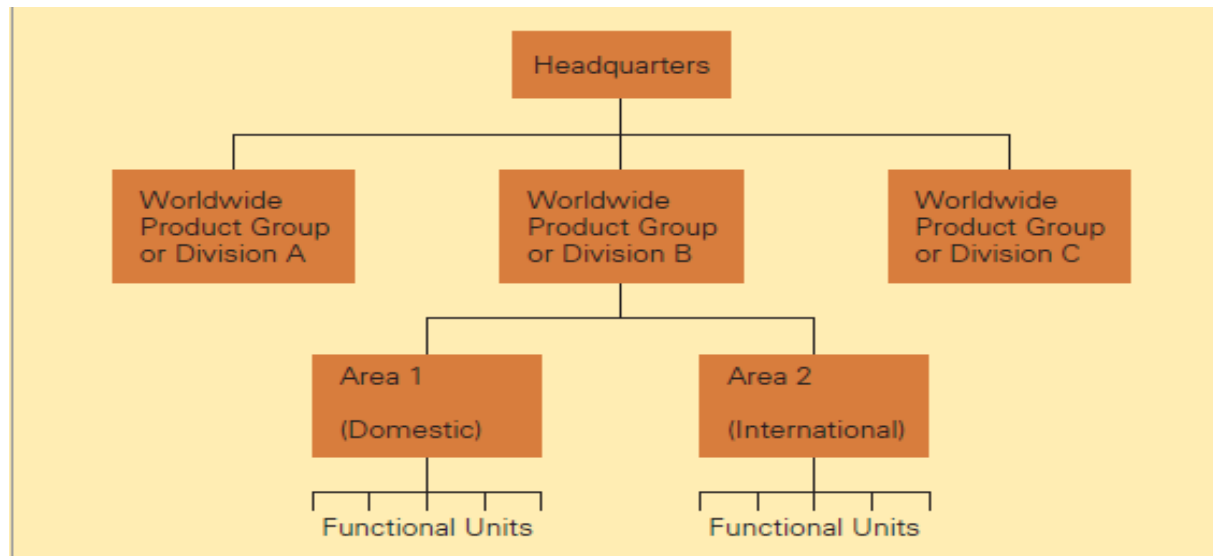
Source: Hill (2014)

Horizontal differentiation

1. Worldwide product divisional structure

- Worldwide coordination of activities
- Location and experience curve economies
- Transfer of core competencies
- Does not allow for local responsiveness

A Worldwide Product Divisional Structure



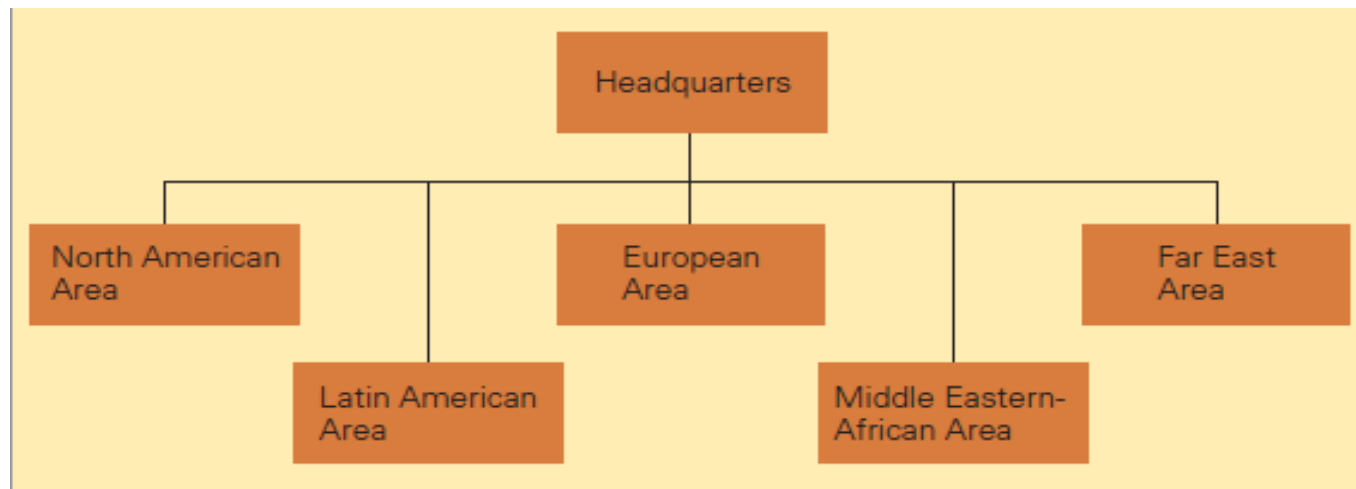
Source: Hill (2014)

Horizontal differentiation

2. Worldwide area structure

- Decentralization
- Local responsiveness
- Can result in a fragmentation of the organization
- Consistent with a localization strategy

A Worldwide Area Structure



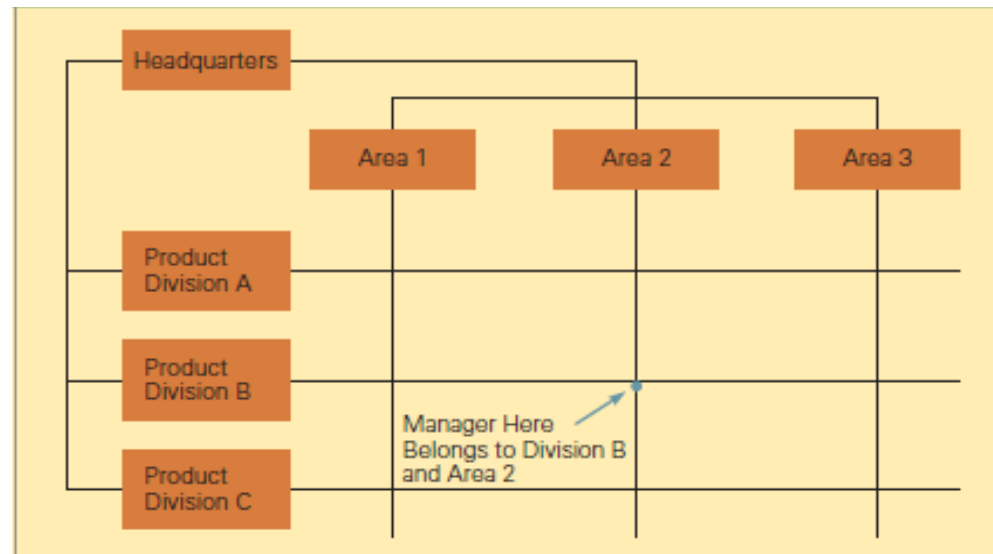
Source: Hill (2014)

Horizontal differentiation

- **Global matrix structure**

- Differentiation along two dimensions: product division and geographic area
- Dual decision-making
- Can be bureaucratic and slow
- Conflicts between areas and product divisions

A Global Matrix Structure



Source: Hill (2014)

Integrating mechanisms

- **Mechanism to integrate subunits**
 - **Formal mechanisms of integration** (from less complex to more complex):
 - Direct contact
 - Liaisons (coordinators)
 - Temporary or permanent teams (i.e., for product development)
 - Matrix structure (i.e. geographic areas and product divisions)
 - Informal integrating mechanisms

Integrating mechanisms

- Formal mechanisms of integration
- **Informal integrating mechanisms:** knowledge networks
 - **Knowledge network:** based on informal contacts and on information systems
 - As many managers as possible, adhered to a common set of norms and values

Control systems and incentives

Control systems

1. **Personal controls:** personal contact with subordinates
2. **Bureaucratic controls:** rules and procedures
 - I.e., budgets and capital spending rules
3. **Output controls:** goals for subunits
4. **Cultural controls:** norms and values

Control systems and incentives

- **Incentives**
 - Usually tied to performance metrics
 - They should:
 - Vary depending on the employee and the work
 - Promote cooperation
 - Reflect national differences

Processes, organizational culture and people

- **Organizational culture:** values (abstract ideas) and norms (social rules and guidelines) that are shared

Behavioural patterns or style of an organization. Employees are encouraged to follow them

- A common culture can facilitate coordination and cooperation, attenuate conflicts and help informal integrating mechanisms
- Evolves from
 - Founders and important leaders
 - National culture
 - History of the enterprise and past successful decisions
- Organizational culture is rarely static, but it tends to change relatively slowly

Organizational culture

- Organizational culture can be maintained through
 - Hiring and promotional practices
 - Reward strategies
 - Socialization processes (formal or informal)
 - Communication
- A “**strong**” culture is not always good
- Adaptive cultures led to the best results

Activity 1

REORGANIZATION AT EADS

QUESTIONS:

- Why EADS tried to merge with BAE Systems?
- What was a major problem identified by EADS after failing in that trial?
- How does EADS react to that problem?

Activity 2

THE INTERNATIONAL DIVISION AT WALMART

QUESTIONS

- What was the initial organizational structure of Walmart when starting to expand internationally?
- Which problems had this strategy?
- Did Walmart change this strategy? Explain when and how
- Which is the dilemma that Walmart faces for organizing global procurement?
- Does the international division of the company maintain any role?

Activity 3

CULTURE AND INCENTIVES AT LINCOLN ELECTRIC

- How did it function the incentive system at Lincoln Electric in the US?
- This incentive system was strongly related to the organizational culture of the enterprise. Which factors had influenced on the evolution of this culture?
- Did the incentive system of the company work in other countries? Why?

Activity 4

PHILIPS NV

- What organizational structure had Philips until the 1970s? How had the history of the enterprise influenced it?
- Which challenges faced Philips in the 1970s? Which was its reaction? Did it work?
- Which has been the direction of the organizational changes introduced by Philips during the 1990s and the 2000s?

Reference

- Hill, Charles W. L. (2014): *International Business. Competing in the global marketplace, 10th edition*. Emerald Group Publishing Limited.