



Chapter 14

The Organization of International Business

Three Minute Paper

Three Minute paper:

Up to this point you have learned many things about various countries (Project included much research)

03:00

Please write a short paragraph regarding what has been most meaningful to you.

Organizational Structure

Three dimensions:

1. Vertical differentiation –

- Where to locate decision-making responsibilities (Centralized vs. Decentralized)

2. Horizontal differentiation –

- How to divide into sub-units (structure)

3. Integrating mechanisms –

- How to coordinate sub-units
- Cross-functional teams
- Pan-regional committees

Control Systems

Control systems are Measurement Systems

- Measure performance of subunits
- Make judgments about how well managers are running those subunits
 - Appropriate ? Fair ?
Monkeys know what is “fair” [VIDEO](#)
 - Did a co-worker ever get more than you, even though you work harder?
Did you feel like the monkey?

Centralization vs. Decentralization

(Vertical Differentiation)

Centralized

- Facilitates coordination
- **Ensure decisions consistent with organization's objectives**
- Gives top-level managers the ability to make change
- Avoids duplication of activities – lower costs

Decentralized

- **Been shown to motivate individuals**
- Greater flexibility
- Can result in better decisions
- Can increase control
- Duplication of effort – higher costs

Typical Domestic Structures

Most companies start with NO structure

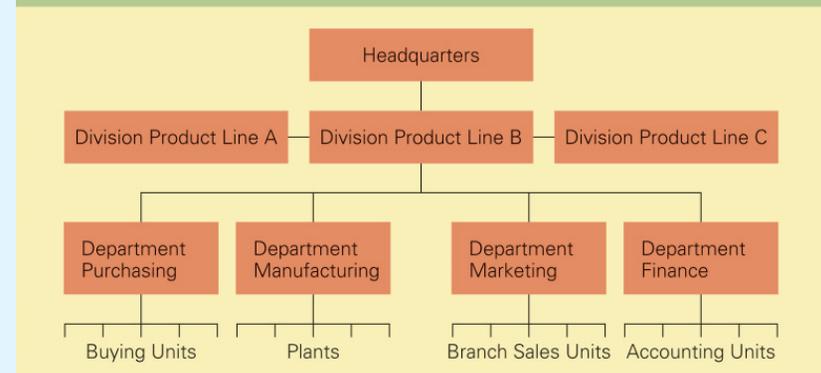
- ❖ Entrepreneur run
- ❖ Small management team

As company Grows

- ❖ Develop formal structure
 - ❖ Focus on value chain
- Cost advantage** or **Differentiation**
Functional **Product**



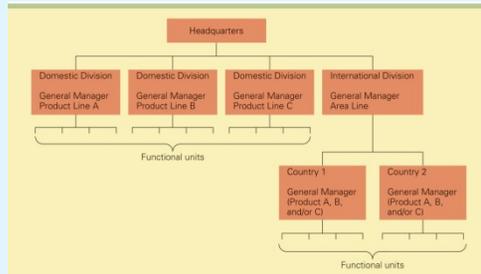
Functional Structure



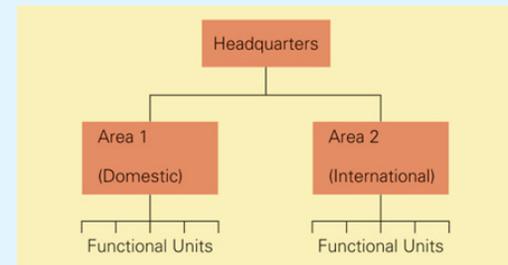
Product Structure

Typical International Structures

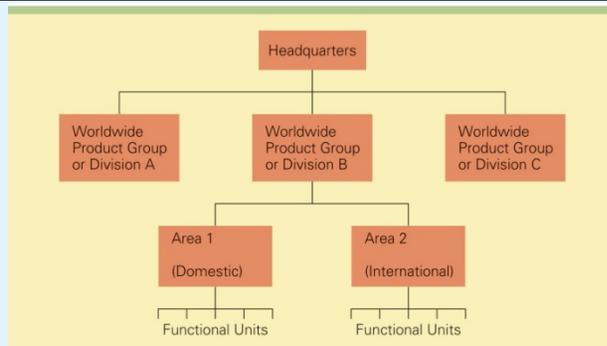
(Horizontal Differentiation)



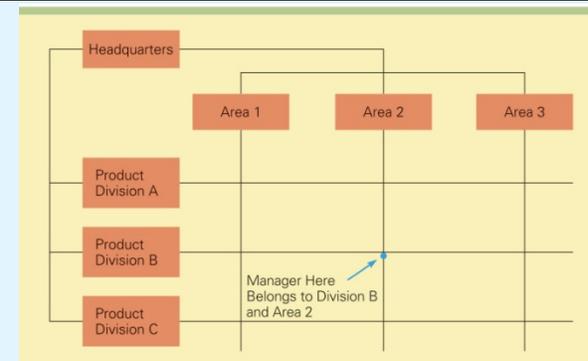
(1) International Division



(2) Worldwide Area



(3) Worldwide Product

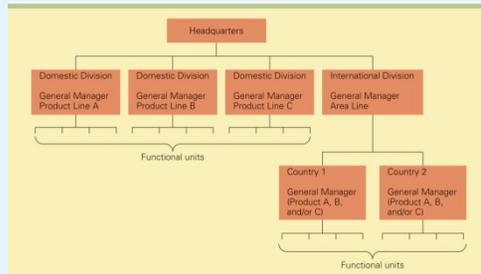


(4) Matrix

Need to answer 2 questions:

- ❖ What is it? (define structure)
- ❖ Which type of company can best use it?

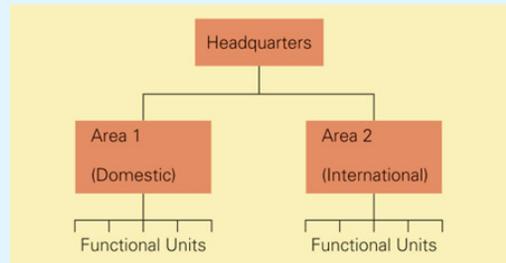
International Division



International Division	Worldwide Area
Worldwide Product	Matrix

- ❖ What is it? (define structure)
- ❖ Separates domestic and international
- ❖ Competes with other functions for \$\$
- ❖ Which type of company can best use it?
- ❖ Just starting out in international business
- ❖ Exporting with int'l sales office

Worldwide Area Structure



International Division	Worldwide Area
Worldwide Product	Matrix

- ❖ What is it? (define structure)
- ❖ Separates geographic regions
- ❖ Each has its own functions
- ❖ Which type of company can best use it?
 - ❖ Many retailers and franchisers
 - ❖ Have many similar operations worldwide

If Walmart were a Country

Annual Revenue: (**2013**) \$466 Billion

28th Largest country of the world (2012 GDP - IMF)

21	 Iran	548,590
22	 Sweden	523,804
23	 Norway	499,633
24	 Poland	489,795
25	 Belgium	483,904
26	 Argentina	475,211
27	 Taiwan	474,149
28	 Austria	394,868
29	 South Africa	384,315
30	 United Arab Emirates	383,799
31	 Venezuela	381,286
32	 Colombia	369,018



Walmart
Sales
2013
\$466 B



If Walmart were a Country

Geographic Market	Retail	Wholesale	Other ⁽²⁾	Total
Africa ⁽³⁾	279	98	—	377
Argentina	94	—	—	94
Brazil	461	86	11	558
Canada	379	—	—	379
Central America ⁽⁴⁾	640	2	—	642
Chile	327	—	2	329
China	385	8	—	393
India ⁽⁵⁾	—	20	—	20
Japan	372	—	66	438
Mexico	1,840	142	371	2,353
United Kingdom	564	—	1	565
International total	5,341	356	451	6,148
U.S. Total				4,625

Worldwide 2013

Locations: 10,773

Employees: 2.2 million

If Walmart were a Country



International Division structure did not work well

- Foreign managers checked in with Bentonville

Moved to Worldwide Area structure (for low-cost advantage)

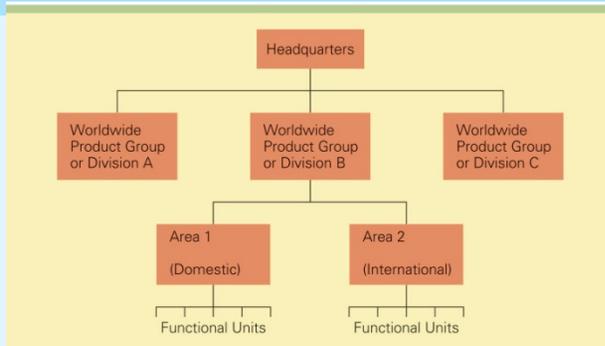
- Local autonomy in merchandising and operations

Sam's Club in China

- Wal-Mart purchases \$27 billion of its merchandise directly from China every year
- In fact, if Wal-Mart were a country, its imports are so substantial that it would be China's sixth largest export country
- Wal-Mart is vulnerable to a weakening US Dollar or strengthening Chinese Yuan
- Short film on how Sam's Club operates in China

FILM

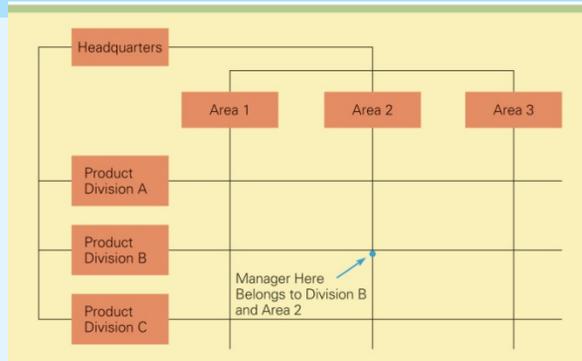
Worldwide Product Structure



International Division	Worldwide Area
Worldwide Product	Matrix

- ❖ What is it? (define structure)
- ❖ Separates company by product types
- ❖ Each has its own functions
- ❖ Which type of company can best use it?
- ❖ Many product categories in company
- ❖ Have many operations worldwide

Matrix Structure



International Division	Worldwide Area
Worldwide Product	Matrix

- ❖ What is it? (define structure)
- ❖ Separates company by both area & product
- ❖ Each has supervisory authority (> 1 boss)
- ❖ Which type of company can best use it?
- ❖ Many subsidiaries that need support
- ❖ Have many operations worldwide

Matching - Form with Companies

Which matches which number below?

International

Product

Area

Matrix

1. A company with many different subsidiaries (each of which needs functional support)
2. A company with sales all over the world (not one of which is substantial in itself)
3. A company with many different subsidiaries (none of which dominates operations)
4. A company with many different product groups

Typical International Structures

Most companies start with:

❖ **International Structure**

**As Companies Grow
they typically move to:**

❖ **Worldwide Area**  

❖ **Worldwide Product** 

Based on **Cost advantage** or **Differentiation**

**As Competitive Pressures
Require Cost Advantage AND
Differentiation, then move to:**

❖ **Matrix**  

Match Organization to Strategy

Global Standardization Strategy

(H Integration/L Responsiveness)

- Centralizes operational authority
- Need for control is high
- strong organizational cultures are encouraged
- **Worldwide product division structure**

Transnational Strategy

(H Integration/H Responsiveness)

- Some decisions centralized, and others are decentralized
- High need for coordination
- Local responsiveness AND economies of scale and location economies
- **Matrix structure**

International Strategy

(L Integration/L Responsiveness)

- **N**eed for control is moderate
- Moderate need for centralization
- Low performance ambiguity AND Low cost of control
- **Worldwide product division structure**

Localization Strategy

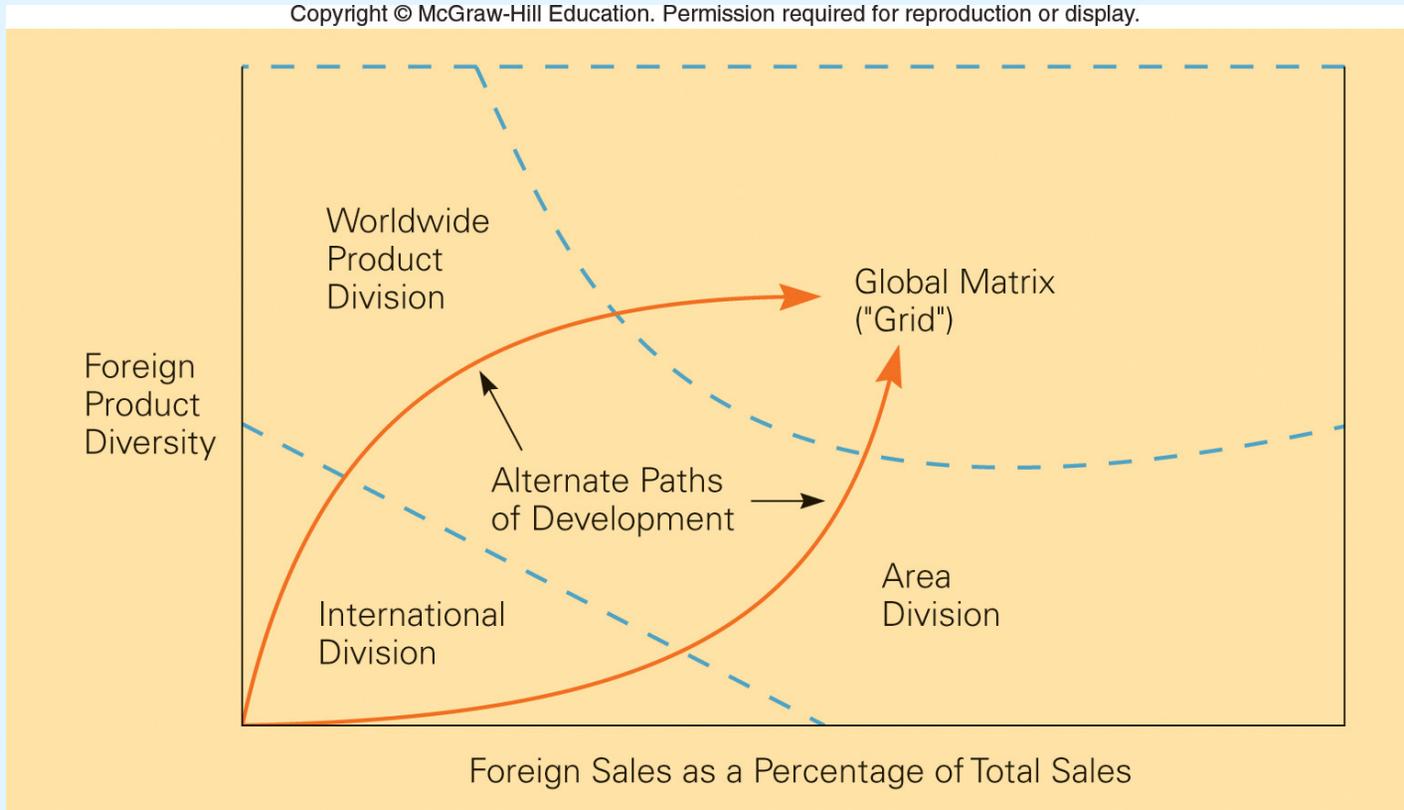
(L Integration/H Responsiveness)

- Divides the world into autonomous geographic areas
- Decentralizes operational authority
- Facilitates local responsiveness
- **Worldwide area structure**

How Does Organizational Structure Change over Time?

The International Structural Stages Model

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To prepare for extra credit, please print out your project:

Present ***summary*** of key portions of your project:

1. Political System
2. Key Industries
3. Business Appointments
4. Business Dress
5. Conversation Topics
6. Gift Giving

Should take about 5 minutes

Group Discussions

1) Assume that you do substantial business in several European countries and want to establish a European headquarters to coordinate activities. **What factors should you consider in choosing a city for these offices?**

2) In a study of home office-subsidary relationships, it was concluded that "People in central office very often request too much information simply because they are trying to control. People in the subsidiaries often withhold information because they consider the requests to be an infringement of their autonomy." **Can you think of any suggestions for alleviating this (control) problem?**

3) Why is it more difficult to evaluate performance (profit-center and management) abroad than at home? **What factors must be considered in making these evaluations?**

4) General Electric has area managers who coordinate all the activities in a given foreign country or group of countries (decentralization). **What do you think are the advantages and disadvantages of this arrangement?**