Chapter 9

ENTRY STRATEGIES AND ORGANIZATIONAL STRUCTURES

OBJECTIVES OF THE CHAPTER

The success of an international firm can be greatly affected by how it enters and operates in new markets and by the overall structure and design of its operations. There are a wide variety of entry strategies and organizational structures and designs from which to choose. Selecting the most appropriate strategy and structure depends on a number of factors, such as the desire of the home office for control over its foreign operations and the demands placed on the overseas unit by both the local market and the personnel who work there.

This chapter first discusses some entry strategies and systems of ownership which MNCs may have to choose from when deciding to expand abroad. With regard to the organization itself, the chapter presents and analyzes traditional organizational structures for effective international operations. Then it explores some of the new, nontraditional organizational arrangements stemming from mergers, joint ventures, and the Japanese concept of keiretsu. The specific objectives of this chapter are:

1. **DESCRIBE** how an MNC develops and implements entry strategies and ownership structures.
2. **EXAMINE** the major types of entry strategies and organizational structures used in handling international operations.
3. **ANALYZE** the advantages and disadvantages of each type of organizational structure, including the conditions that make one preferable to others.
4. **DESCRIBE** the recent, nontraditional organizational arrangements coming out of mergers, joint ventures, keiretsus, and other new designs including electronic networks and product development structures.
5. **EXPLAIN** how organizational characteristics such as formalization, specialization, and centralization influence how the organization is structured and functions.

The World of *International Management*

From Matrix to Customer-Centric Management at ABB

As a global leader in power and automation technologies, ABB serves utility and industry customers across the world. It has 117,000 employees in about 100 countries and generated $31.8 billion in revenue in 2009. It possesses a strong presence in emerging markets, particularly in Asia.

ABB was formed as a result of a 1988 merger between two former competitors, the Swedish ASEA AB and the Swiss BBC Brown Boveri Ltd. The Swedish company added its management strength and the Swiss company added its technological and marketing expertise. The new CEO declared that ABB would be "global and local, big and small, radically decentralized but with central control." To achieve these seemingly competing objectives, ABB's CEO chose to implement matrix management.

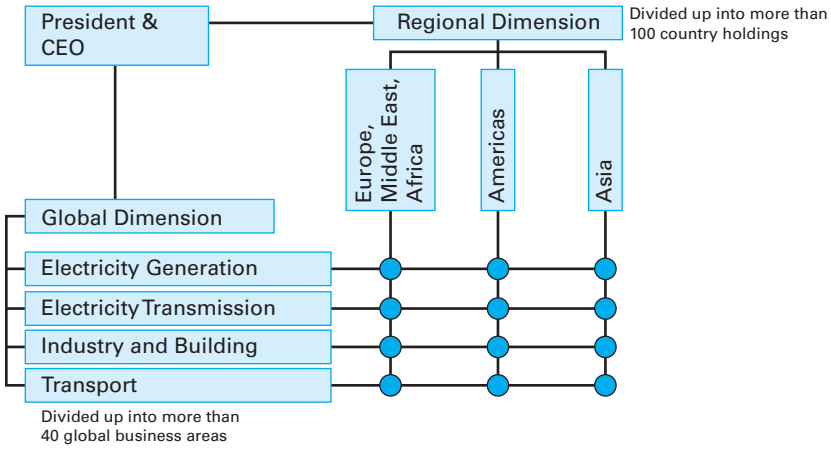
Matrix Management

Matrix management is an organizational structure that combines two levels of oversight and control. In ABB's case in 1993, the company was divided into four corporate divisions (Global dimensions) at the same time as it was divided into three geographic regions (Regional dimensions). The Global dimensions were further partitioned into business areas and the Regional dimensions were partitioned into country holdings. See the nearby figure from Germany's INFO Institut.

Thus, employees reported to two superiors, one from their Global Dimension and one from the Regional dimension. Global dimensions were responsible for strategy, distribution, and R&D, whereas Regional dimensions were responsible for sales and local customer satisfaction.

To accomplish the objective to be both "global and local," ABB's matrix management pursued global

Global Matrix Organization 1993–1998—Representation



Source: Barham/Heimer: ABB- der tanzende Riese, p. 304 f.

integration and local responsiveness. Management sought to globally optimize through economies of scale and to differentiate products based on local markets. ABB would be "big" in its global size, but "small" in its appearance as a local partner to customers. It would be decentralized to achieve flexibility, while having central control based on a uniform performance measurement system.

Overall, matrix management has advantages and disadvantages. Its advantages include economies of scale, adaptability, and customization of products. Its main disadvantage is its complexity; the dual hierarchy often creates conflict, confusion, and politics, which inhibit effectiveness.

Problems

The matrix structure proved to be too complex for ABB. Internal decision making was poor. Project coordination needed improvement. In response, in 1998, the CEO changed ABB to a sector-based organization. Management was based on six sectors of ABB's business. This new management structure, however, was ineffective as well.

In 2000, ABB's operating cash flow dropped more than 35 percent. The INFO Institut reported that this reduction in cash flow was "primarily due to an expansion of current assets, which could reflect unsatisfactory capital management and management problems." In July 2001, ABB announced it would cut 12,000 jobs. For the fiscal year 2001, ABB reported its first-ever loss (of $691 million) since it began in 1988.

A case study of ABB completed by the IBS Center for Management Research reported: "Analysts felt that poor strategic decisions taken by the top management of ABB and HR-related problems arising due to frequent changes in the organization structure were some of the reasons for the poor financial performance of ABB."

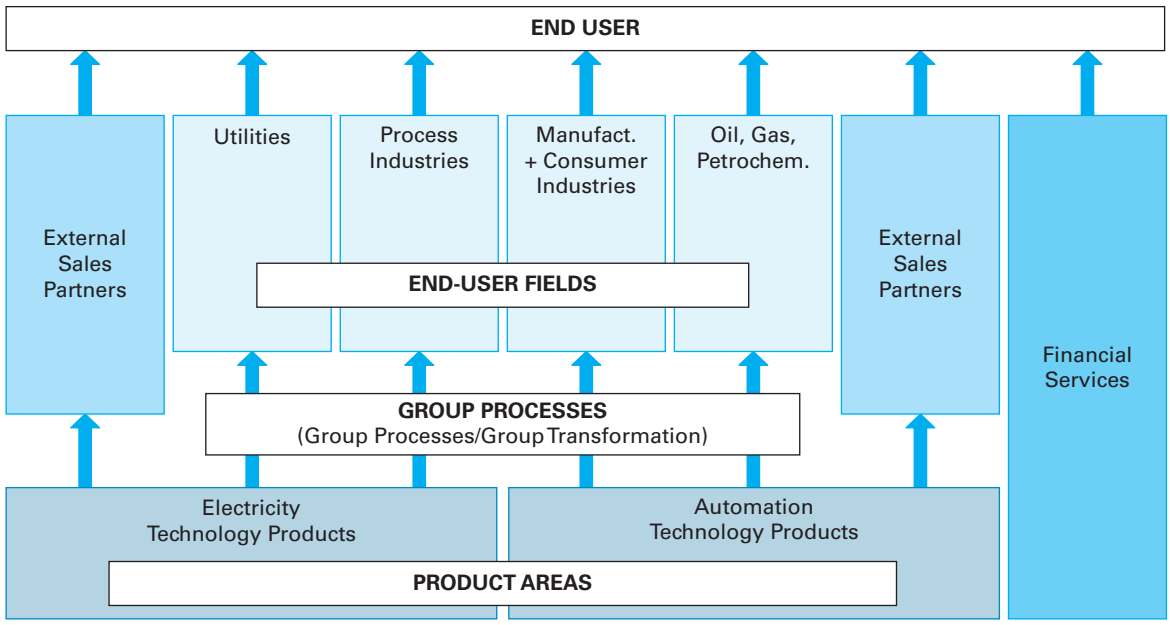
Customer-Centric Management

In January 2001, ABB announced that it would alter its management structure to focus on its customers. It divided its customers into four main "End-User Fields":

- Utilities
- Process Industries
- Manufacturing and Consumer Industries
- Oil, Gas, and Petrochemicals

Please see the nearby graph from INFO Institut.

The New Customer-Based Organization of the ABB Group-Description



In October 2002, ABB combined all but the Oil, Gas, and Petrochemical End-User Field into one "Power Technologies and Automation Technologies" End-User Field and Group Processes was dissolved.

In its report, the INFO Institut explained ABB's customer-centric management: "In the new organization, customers will no longer be serviced by various ABB product areas. Rather, each customer will be looked after by a single area." Instead of having to negotiate with multiple different business areas, customers interface with one End-User Field for all of their needs. In this way, ABB has improved its customer relations by better accommodating its customers.

Uses of Technology

In late 2001, ABB announced its commitment to R&D in industrial information technology, or Industrial IT. The INFO Institut described Industrial IT as "an electronic architecture encompassing the gamut of the company's technologies and services." By incorporating Industrial IT into its products, ABB seeks to "link the business processes of ABB's manufacturers, suppliers and customers, thus making it possible to meet individual customers' needs."

ABB has been on the cutting edge of technology in the past. In March 2000, ABB held the world's first cross-border shareholders' meeting using a real-time wireless electronic voting system. ABB is leveraging technology to operate efficiently in the global economy.

The Market's Response

ABB's stock rose fairly consistently from October 2002 until May 2008. This strong upward trend in the stock price is an indication that investors think that its customer-centric management strategy will create value for the company.

Recently, ABB's business has suffered in the global financial crisis. Yet, the current CEO is hopeful that ABB's financial performance will improve once capital spending on infrastructure projects picks up again. As of July 2010, ABB plans to significantly increase its stake in its Indian subsidiary and sees future robust demand in Europe, the Middle East, and China.

ABB has led the way in its management approach. It was one of the first MNCs to embrace matrix management. Having learned important lessons from matrix management, ABB completely reorganized to become one of the first companies to become customer-centric. This new management approach appears not only to better satisfy customers, but also to generate company value.

The World of International Management's discussion of ABB provides a good example of the entry and organizational challenges and options companies face as they do business around the world. ABB was a pioneer of matrix management, in which industry and global geography create two levels of reporting relationships, but matrix

proved to be too cumbersome and complex for the fast-changing businesses in which ABB was active. ABB moved to a more customer-driven structure which was more responsive and flexible. This structure allowed ABB to adapt its structure to those of its business customers as they expanded and grew around the world. In this chapter we review the basic entry strategies and organizational structures available to firms as they expand their global reach.

Entry Strategies and Ownership Structures

There are a number of common entry strategies and ownership structures in international operations. The most common entry approaches are wholly owned subsidiaries, mergers and acquisitions, alliances and joint ventures, licensing agreements, franchising, and basic export and import operations. Depending on the situation, any one of these can be a very effective way to implement an MNC's strategy. We first look at exporting and importing, since it is not only one of the oldest approaches, but one that requires the least investment by the MNC.

Export/Import

As noted in the discussion in Chapter 8 on international entrepreneurship and new ventures, exporting and importing often are the only available choices for small and new firms wanting to go international.[1] These choices also provide an avenue for larger firms that want to begin their international expansion with minimum investment and risk. The paperwork associated with documentation and foreign-currency exchange can be turned over to an export management company to handle, or the firm can handle things itself by creating its own export department. Additionally, the firm can turn to major banks or other specialists that, for a fee, will provide a variety of services, including letters of credit, currency conversion, and related financial assistance.

A number of potential problems face firms that plan to export. For example, if a foreign distributor does not work out well, some countries have strict rules about dropping that distributor. So an MNC with a contractual agreement with a distributor could be stuck with that distributor. On the other hand, if the firm decides to get more actively involved, it may make direct investments in marketing facilities, such as warehouses, sales offices, and transportation equipment, without making a direct investment in manufacturing facilities overseas.

When importing goods, many MNCs source products from a wide range of suppliers from all over the world. It is common to find U.S. firms purchasing supplies and components from Korea, Taiwan, and Hong Kong. In Europe, there is so much trade between EU countries that the entire process seldom is regarded as "international" in focus by the MNCs that are involved.

Exporting and importing can provide easy access to overseas markets; however, the strategy usually is transitional in nature. If the firm wishes to continue doing business internationally, it will need to get more actively involved in terms of investment and take on new risks.

Wholly Owned Subsidiary

Increasing in risk and involvement, a **wholly owned subsidiary** is an overseas operation that is totally owned and controlled by an MNC. This option is often pursued by smaller companies, especially if international or transaction costs, such as the cost of negotiating and transferring information, are high.[2] When MNCs make an initial investment in the form of a wholly owned subsidiary in a foreign country, it is sometimes referred to as "greenfield" or de novo (new) investment.

wholly owned subsidiary An overseas operation that is totally owned and controlled by an MNC.

The primary reason for the use of wholly owned subsidiaries is a desire by the MNC for total control and the belief that managerial efficiency will be better without

outside partners. Due to the sole ownership, it has been found that profits can be higher with this venture and that there are clearer communications and shared visions. However, there are some drawbacks. Typically, wholly owned subsidiaries face a high risk with such a large investment in one area and are not very efficient with entering multiple countries or markets. This can also lead to low international integration or multinational involvement.[3] Furthermore, host countries often feel that the MNC is trying to gain economic control by setting up local operations but refusing to include local partners. Some countries are concerned that the MNC will drive out local enterprises as opposed to helping develop them. In dealing with these concerns, many newly developing countries prohibit wholly owned subsidiaries. Another drawback is that home-country unions sometimes oppose the creation of foreign subsidiaries, which they see as an attempt to "export jobs," particularly when the MNC exports goods to another country and then decides to set up manufacturing operations there. As a result, today many multinationals opt for a merger, alliance, or joint venture rather than a wholly owned subsidiary.[4]

Mergers/Acquisitions

merger/acquisition
The cross-border purchase or exchange of equity involving two or more companies.

In recent years, a growing number of multinationals have acquired (fully or in part) their subsidiaries through **mergers/acquisitions.** MNCs may choose this route in order to quickly expand resources or construct high-profit products in a new market.[5] Purchasing a majority interest in another company is an expedient way to expand. A recent example of a sizeable cross-border acquisition was Roche Holding's purchase of the remaining shares of biopharmaceutical company Genentech for $46.8 billion in March of 2009 (see Table 9–1, which shows the top M&A deals in 2009). Roche held a majority share of Genentech since 1990, but the move to complete integration appears to have been motivated by the goal of improving coordination on product development. In addition, cost savings could yield $750 million to $850 million a year. Although Roche sells many of its own drugs, its three best-selling drugs—cancer medicines Avastin, Herceptin, and Rituxan—come from Genentech. And a number of the late-stage clinical trials conducted by Roche involve Genentech products. Roche had first rights for marketing Genentech's products outside the United States, but this agreement was scheduled to expire in 2015. Hence, there were a number of compelling reasons for Roche to increase its stake in Genentech.[6] At the same time, the record of success for cross-border mergers is decidedly mixed.

Cultural differences (see Chapter 6) and time constraints are the two most pervasive barriers.[7] Even before agreements are reached, time is of great concern. While managers do not want to force negotiations or rush a potential subsidiary's decision, waiting too long could result in missed opportunities due to bids from competitors or a rapid change in the market. Once a merger or acquisition occurs, managers may find it difficult to clearly communicate new operational goals to the foreign subsidiary, which not only highlights cultural differences but also adds time and risk to a company's activities. In the case of the Roche-Genentech deal, one concern is that with a large, somewhat traditional Swiss company calling the shots, Genentech's free-wheeling and innovative culture might be compromised, possibly resulting in the exit of top scientists and engineers.

Transition costs also pose a problem in the postmerger environment. In 2006, French telecommunication company Alcatel merged with U.S. telecommunication company Lucent in an $11.6 billion deal. Alcatel-Lucent, which provides hardware, software, and services in the telecommunication industry, exhibited a disappointing $460 million loss in early 2007. This counteracted the original purpose of the merger, namely to deflect worldwide competition, since other companies such as Ericsson had been experiencing a gain in profits and were then better equipped to weaken the already stumbling newborn. Alcatel-Lucent attributes the loss to postmerger complications due to heavy investments which were necessary to migrate customer networks. The future of this company is bleak for the moment, as the quarter resulted in a 9.3 percent drop in share price. Managers need to be wary of such common complications and attempt to move forward by enhancing communication and operational efficiency.[8]

Table 9–1
Completed Cross-Border M&A Deals Worth over $1 Billion in 2009

Rank	Value ($ billion)	Acquired Company	Host Economy[a]	Industry of the Acquired Company	Acquiring Company	Home Economy[a]	Industry of the Acquiring Company	Shares Acquired (percent)
1	46.7	Genentech Inc	United States	Biological products, except diagnostic substances	Roche Holding AG	Switzerland	Pharmaceutical preparations	48
2	16.9	British Energy Group PLC	United Kingdom	Electric services	Lake Acquisitions Ltd	United Kingdom	Investors, nec	73
3	13.5	Endesa SA	Spain	Electric services	Enel SpA	Italy	Electric services	25
4	13.3	Barclays Global Investors Ltd	United States	Investment advice	BlackRock Inc	United States	Investment advice	100
5	12.8	Fortis Bank SA/NV	Belgium	Banks	BNP Paribas SA	France	Banks	75
6	10.4	Essent NV	Netherlands	Combination utilities, nec	Rheinisch-Westfaelisches Elektrizitaetswerk AG	Germany	Electric services	100
7	9.6	Volkswagen AG	Germany	Motor vehicles and passenger car bodies	Qatar Investment Authority	Qatar	Management investment offices, open-end	15
8	7.9	Itinere Infraestructuras SA	Spain	Highway and street construction	Pear Acquisition Corporation SL	Spain	Investors, nec	43
9	7.2	Addax Petroleum Corp	Switzerland	Crude petroleum and natural gas	Mirror Lake Oil & Gas Co Ltd	Canada	Crude petroleum and natural gas	100
10	6.7	Puget Energy Inc	United States	Electric services	Padua Holdings LLC	United States	Investors, nec	90
11	6.1	Nuon NV	Netherlands	Electric services	Vattenfall AB	Sweden	Electric services	49
12	5.8	Nikko Cordial Securities Inc	Japan	Security brokers, dealers, and flotation companies	Sumitomo Mitsui Banking Corp	Japan	Banks	100
13	5.1	Macquarie Communications Infrastructure Group	Australia	Television broadcasting stations	Canada Pension Plan Investment Board	Canada	Investment advice	100
14	4.9	Thomson Reuters PLC	United Kingdom	Information retrieval services	Thomson Reuters Corp	United States	Information retrieval services	100
15	4.5	Constellation Energy Nuclear Group LLC	United States	Electric services	Electricité de France International SA	France	Electric services	50
16	4.4	Cia Espanola de Petroleos SA	Spain	Crude petroleum and natural gas	International Petroleum Investment Co	United Arab Emirates	Management investment offices, open-end	38
17	4.0	Merial Ltd	United States	Pharmaceutical preparations	Sanofi-Aventis SA	France	Pharmaceutical preparations	50
18	4.0	OAO "Severneftegazprom"	Russian Federation	Crude petroleum and natural gas	E ON AG	Germany	Electric services	25

(continued)

Table 9–1
Completed Cross-Border M&A Deals Worth over $1 Billion in 2009 *(continued)*

Rank	Value ($ billion)	Acquired Company	Host Economy[a]	Industry of the Acquired Company	Acquiring Company	Home Economy[a]	Industry of the Acquiring Company	Shares Acquired (percent)
19	3.9	Harvest Energy Trust	Canada	Crude petroleum and natural gas	Korea National Oil Corp {KNOC}	Korea, Republic of	Crude petroleum and natural gas	100
20	3.9	Chartered Semiconductor Manufacturing Ltd	Singapore	Semiconductors and related devices	Advanced Technology Investment Co LLC	United Arab Emirates	Management investment offices, open-end	100
21	3.8	GCL Solar Energy Technology Holdings Inc	China	Semiconductors and related devices	GCL-Poly Energy Holdings Ltd	Hong Kong, China	Cogeneration, alternative energy sources	100
22	3.6	Stiefel Laboratories Inc	United States	Pharmaceutical preparations	GlaxoSmithKline PLC	United Kingdom	Pharmaceutical preparations	100
23	3.5	Lake Acquisitions Ltd	United Kingdom	Investors, nec	Centrica PLC	United Kingdom	Electric and other services combined	20
24	3.2	Distrigaz SA	Belgium	Natural gas transmission and distribution	ENI G&P Belgium SpA	Belgium	Natural gas transmission and distribution	43
25	3.1	Somerfield Stores Ltd	United Kingdom	Grocery stores	Co-operative Group Ltd	United Kingdom	Grocery stores	100
26	3.1	Procter & Gamble Pharmaceuticals Inc	United States	Pharmaceutical preparations	Warner Chilcott PLC	United States	Pharmaceutical preparations	100
27	3.1	Friends Provident PLC	United Kingdom	Life insurance	Resolution Ltd	Guernsey	Security brokers, dealers, and flotation companies	100
28	3.0	Anheuser-Busch Inbev	Bulgaria	Malt beverages	CVC Capital Partners Ltd	Luxembourg	Investors, nec	100
29	2.9	Advanced Micro Devices Inc	United States	Semiconductors and related devices	Advanced Technology Investment Co LLC	United Arab Emirates	Management investment offices, open-end	66
30	2.9	NDS Group PLC	United Kingdom	Prepackaged Software	Permira Advisers LLP	United Kingdom	Investors, nec	77
31	2.8	Felix Resources Ltd	Australia	Bituminous coal and lignite surface mining	Yanzhou Coal Mining Co Ltd	China	Bituminous coal and lignite surface mining	100
32	2.7	Busch Entertainment Corp	United States	Amusement parks	Blackstone Capital Partners V LP	United States	Investment offices, nec	100
33	2.7	Tata Teleservices Ltd	India	Radiotelephone communications	NTT DOCOMO	Japan	Radiotelephone communications	26
34	2.6	OAO Mangistau-MunaiGaz	Kazakhstan	Crude petroleum and natural gas	Investor Group	China	Investors, nec	100

Rank	Value ($ billion)	Acquired Company	Host Economy[a]	Industry of the Acquired Company	Acquiring Company	Home Economy[a]	Industry of the Acquiring Company	Shares Acquired (percent)
35	2.6	Swiss Reinsurance Co Ltd	Switzerland	Life insurance	Berkshire Hathaway Inc	United States	Fire, marine, and casualty insurance	20
36	2.6	Ciba Specialty Chemicals Holding Inc	Switzerland	Chemicals and chemical preparations, nec	BASF SE	Germany	Industrial organic chemicals, nec	83
37	2.6	Sepracor Inc	United States	Pharmaceutical preparations	Aptiom Inc	United States	Pharmaceutical preparations	91
38	2.5	Dunedin Holdings SARL	United States	Bread and other bakery products, except cookies	Grupo Bimbo SAB de CV	Mexico	Bread and other bakery products, except cookies	100
39	2.5	London Gatwick Airport Ltd	United Kingdom	Airports and airport terminal services	Global Infrastructure Partners	United States	Investors, nec	100
40	2.5	Hutchison Telecommunications Ltd	Australia	Radiotelephone communications	Vodafone Group PLC	Australia	Radiotelephone communications	100
41	2.4	Vodacom Group(Pty) Ltd	South Africa	Radiotelephone communications	Vodafone Group PLC	United Kingdom	Radiotelephone communications	15
42	2.4	Oy Metsa-Botnia AB	Uruguay	Pulp mills	UPM-Kymmene Oyj	Finland	Logging	100
43	2.4	PowerSeraya Ltd	Singapore	Electric and other services combined	YTL Power International Bhd	Malaysia	Electric services	100
44	2.3	Lion Nathan Ltd	Australia	Malt beverages	Kirin Holdings Co Ltd	Japan	Malt beverages	54
45	2.3	UBS Pactual	Brazil	Security brokers, dealers, and flotation companies	BTG Pactual	Brazil	Investors, nec	100
46	2.2	ASARCO LLC	United States	Copper ores	Grupo Industrial Minera Mexico SA de CV	Mexico	Copper ores	100
47	2.0	Skype Technologies SA	Luxembourg	Telephone communications, except radiotelephone	Investor Group	United States	Investors, nec	70
48	2.0	Ternium Sidor	Venezuela	Steel works, blast furnaces, and rolling mills	Corporacion Venezolana de Guayana	Venezuela	Offices of holding companies, nec	60
49	2.0	Glencore International AG	Colombia	Bituminous coal and lignite surface mining	Xstrata Coal South America	Colombia	Bituminous coal and lignite surface mining	100
50	2.0	Zentiva NV	Czech Republic	Pharmaceutical preparations	Sanofi-Aventis SA	France	Pharmaceutical preparations	72

Note: Where the ultimate parent company is different, M&A deals within the same economy are still considered cross-border M&As.

[a]Immediate country.

Source: UNCTAD, *World Investment Report 2010,* Annex Table 20: Cross-Border M&A Deals Worth over $1 Billion Completed in 2009; cross-border M&A database (www.unctad.org/fdistatistics).

Alliances and Joint Ventures

alliance
Any type of cooperative relationship among different firms.

joint venture (JV)
An agreement under which two or more partners own or control a business.

An **alliance** is any type of cooperative relationship among two or more different firms. An international alliance is composed of two or more firms from different countries. Some alliances are temporary; others are more permanent. A **joint venture (JV)** can be considered a specific type of alliance agreement under which two or more partners own or control a business. An international joint venture (IJV) is a JV composed of two or more firms from different countries. Alliances and joint ventures can take a number of different forms, including cross-marketing arrangements, technology-sharing agreements, production-contracting deals, and equity agreements. In some instances, two parties may create a third, independent entity expressly for the purpose of developing a collaborative relationship outside their core operations. Just like mergers and acquisitions, alliances and joint ventures can pose substantial managerial challenges. We discuss some of these at the end of the chapter and again in Chapter 10.

There are two types of alliances and joint ventures. The first type is the *nonequity venture,* which is characterized by one group's merely providing a service for another. The group providing the service typically is more active than the other. Examples include a consulting firm that is hired to provide analysis and evaluation and then make its recommendations, an engineering or construction firm that contracts to design or build a dam or series of apartment complexes in an undeveloped area of a partner's country, or a mining firm that has an agreement to extract a natural resource in the other party's country.

The second type is the *equity joint venture,* which involves a financial investment by the MNC parties involved. Many variations of this arrangement adjust the degree of control that each of the parties will have and the amount of money, technological expertise, and managerial expertise each will contribute to the JV.[9]

Most MNCs are more interested in the amount of control they will have over the venture rather than their share of the profits. Similarly, local partners feel the same way, which can result in problems. Nevertheless, alliances and joint ventures have become very popular in recent years because of the significant operational benefits they offer to both parties. Some of the most commonly cited advantages include:

1. *Improvement of efficiency.* The creation of an alliance or JV can help the partners achieve economies of scale and scope that would be difficult for one firm operating alone to accomplish. Additionally, the partners can spread the risks among themselves and profit from the synergies that arise from the complementary resources.[10]
2. *Access to knowledge.* In alliances and JVs each partner has access to the knowledge and skills of the others. So one partner may bring financial and technological resources to the venture while another brings knowledge of the customer and market channels.
3. *Mitigating political factors.* A local partner can be very helpful in dealing with political risk factors such as a hostile government or restrictive legislation.
4. *Overcoming collusion or restriction in competition.* Alliances and JVs can help partners overcome the effects of local collusion or limits being put on foreign competition by becoming part of an "insider" group.[11]

As noted above, alliance and JV partners often complement each other and can thus reduce the risks associated with their operations and entering a foreign market. A good example is European truck manufacturing and auto component industries. Firms in both groups have found that the high cost of developing and building their products can be offset through joint ventures.

One industry that has been very active in cross-border alliances is airlines. These alliances have been prompted by slow growth in some markets, increased global competition, and the competitive dynamics among domestic and global carriers. Recently, British Airways has pursued an alliance with Iberia of Spain, with American Airlines of the United States as a possible third partner. This proposed hook-up was prompted, in part, by the

merger of Air France and KLM. Each carrier will maintain its brand identity within a new British-Spanish holding company, International Airlines Group. The structure mirrors those used by Air France and Lufthansa in their European acquisitions.[12] In general, airlines are discouraged from formal alliances because of concerns about collusion and price-fixing, but many airlines have been granted waivers because of a recognition by regulatory authorities that their very survival may depend on consolidation. More broadly, the structure of the global airline industry has evolved into three large alliances in which member firms agree to code-sharing and reciprocity in their frequent flyer programs. Table 9–2 shows the major alliances, their current members, and their geographic scope and coverage.

Alliances and JVs are proving to be particularly popular as a means for doing business in emerging-market countries. For example, in the early 1990s, foreigners signed

Table 9–2
Membership and Market Data for the Largest Airline Alliances (as of December 2008)

	Star Alliance (28 members, Founded 1997)	Sky Team (13 members, Founded 2000)	One World (11 members, Founded 1999)	Rest of Industry (selected major nonaligned carriers)
Passengers per year	623.53 million	384.7 million	328.63 million	489 million
Destinations	1,167	898	727	(most destinations served by a nonaligned carrier)
Revenue (billion US$)	153.51	97.9	99.78	113
Market share	29.3%	20.6%	23.2%	26.9%
Major airlines	Air Canada founder Air China 2007 Air New Zealand 1999 ANA 1999 Asiana Airlines 2003 Continental Airlines 2009 Lufthansa founder SAS founder Singapore Airlines 2000 Thai Airways founder United Airlines founder US Airways 2004	Aeroflot 2006 Aeroméxico founder Air France founder Alitalia 2001 China Southern 2007 Delta founder KLM 2004 Korean Air founder	American Airlines founder British Airways founder Cathay Pacific founder Iberia 1999 Japan Airlines 2007 Qantas founder	JetBlue Southwest Aer Lingus Icelandair Virgin Atlantic Emirates Qatar Airways Saudi Arabian Airlines China Airlines Jet Airways
Network capacity				
Within North America	23%	28%	15%	34%
Within South America	1	2	14	83
Within Europe	20	16	11	53
Within Middle East	2	0	3	95
Within Africa	23	10	4	63
Within Asia	35	11	9	45
Within Oceania	11	0	32	57
Between N. America and Europe	27	34	21	18
Between N. America and S. America	9	29	40	22
Between Europe and S. America	20	28	22	30
Between N. America and Asia	41	29	10	20
Between Europe and Asia	36	22	19	23

Source: Adapted from Wikipedia, based on airline websites. www.wikipedia.com

more than 3,000 joint-venture agreements in Eastern Europe and the former republics of the Soviet Union, and such interest remains high today. However, careful analysis must be undertaken to ensure that the market for the desired goods and services is sufficiently large, that all parties understand their responsibilities, and that all are in agreement regarding the overall operation of the venture. If these issues can be resolved, the venture stands a good chance of success. The nearby International Management in Action, "Joint Venturing in Russia," illustrates some of the problems that need to be overcome in order for a JV to be successful. Some of the other suggestions that have been offered by researchers regarding participation in strategic alliances include:

1. Know your partners well before an alliance is formed.
2. Expect differences in alliance objectives among potential partners headquartered in different countries.
3. Realize that having the desired resource profiles does not guarantee that they are complementary to your firm's resources.
4. Be sensitive to your alliance partner's needs.
5. After identifying the best partner, work on developing a relationship that is built on trust, an especially important variable in some cultures.[13]

Licensing

license
An agreement that allows one party to use an industrial property right in exchange for payment to the owning party.

Another way to gain market entry, which may also be considered a form of alliance, is to acquire the right to a particular product by getting an exclusive license to make or sell the good in a particular geographic locale. A **license** is an agreement that allows one party to use an industrial property right in exchange for payment to the owning party. In a typical arrangement, the party giving the license (the licensor) will allow the other (the licensee) to use a patent, a trademark, or proprietary information in exchange for a fee. The fee usually is based on sales, such as 1 percent of all revenues earned from an industrial motor sold in Asia. The licensor typically restricts licensee sales to a particular geographic locale and limits the time period covered by the arrangement. The firm in this example may have an exclusive right to sell this patented motor in Asia for the next five years. This allows the licensor to seek licensees for other major geographic locales, such as Europe, South America, and Australia.

Licensing is used under a number of common conditions. For example, the product typically is in the mature stage of the product life cycle, competition is strong, and profit margins are declining. Under these conditions, the licensor is unlikely to want to spend money to enter foreign markets. However, if the company can find an MNC that is already there and willing to add the product to its own current offerings, both sides can benefit from the arrangement. A second common instance of licensing is evident when foreign governments require newly entering firms to make a substantial direct investment in the country. By licensing to a firm already there, the licensee avoids these high entry costs. A third common condition is that the licensor usually is a small firm that lacks financial and managerial resources. Finally, companies that spend a relatively large share of their revenues on research and development (R&D) are likely to be licensors, and those that spend very little on R&D are more likely to be licensees. In fact, some small R&D firms make a handsome profit every year by developing and licensing new products to large firms with diversified product lines.

Some licensors use their industrial property rights to develop and sell goods in certain areas of the world and license others to handle other geographic locales. This provides the licensor with a source of additional revenues, but the license usually is not good for much more than a decade. This is a major disadvantage of licensing. In particular, if the product is very good, the competition will develop improvement patents that allow it to sell similar goods or even new patents that make the current product obsolete. Nevertheless, for the period during which the agreement is in effect, a license can be a very low-cost way of gaining and exploiting foreign markets.

International Management in Action

Joint Venturing in Russia

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Joint venturing is becoming an increasingly popular strategy for setting up international operations. Russia is particularly interested in these arrangements because of the benefits they offer for attracting foreign capital and helping the country tap its natural resource wealth. However, investors are finding that joint venturing in Russia and the other republics of the former Soviet Union can be fraught with problems. For example, Royal Dutch Shell was recently pressured to give up its majority stake in Sakhalin Island to Gazprom. BP has been forced to renegotiate its contracts with its Russian joint-venture partner, TNK. New laws will require foreign investors interested in Russian energy projects to pair with Kremlin-approved organizations, further empowering the Russian company and government. Kremlin power is not the only problem facing joint-venture investors in Russia. Others include the following:

1. Many Russian partners view a joint venture as an opportunity to travel abroad and gain access to foreign currency; the business itself often is given secondary consideration.
2. Finding a suitable partner, negotiating the deal, and registering the joint venture often take up to a year, mainly because the Russians are unaccustomed to some of the basic steps in putting together business deals.
3. Russian partners typically try to expand joint ventures into unrelated activities.
4. Russians do not like to declare profits, because a two-year tax holiday on profits starts from the moment the first profits are declared.
5. The government sometimes allows profits to be repatriated in the form of countertrade. However, much of what can be taken out of the country has limited value, because the government keeps control of those resources that are most saleable in the world market.

These representative problems indicate why there is reluctance on the part of some MNCs to enter into joint ventures in Russia. As one of them recently put it, "The country may well turn into an economic sink hole." As a result, many MNCs are wary of potential contracts and are proceeding with caution.

Table 9–3 provides some comparisons between licensing and joint ventures and summarizes the major advantages and disadvantages of each.

Licenses are also common among large firms seeking to acquire technology to bolster an existing product. For example, Microsoft announced it had agreed to a licensing arrangement with ARM Holdings PLC that allows the software giant to design chips based on ARM's technology, a common component in cellphones and tablet-style computers. According to *The Wall Street Journal,* most of ARM's licensees "take complete designs for application processors—which run software in cellphones—often combining them with other circuitry, like baseband processors for managing cellphone radios. But Microsoft signed up for what ARM calls an 'architectural license,' a more comprehensive agreement that allows a company to take the underlying instructions used in ARM chips and create wholly original designs."[14]

Franchising

franchise
A business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee.

Closely related to licensing is franchising. A **franchise** is a business arrangement under which one party (the franchisor) allows another (the franchisee) to operate an enterprise using its trademark, logo, product line, and methods of operation in return for a fee. Franchising is widely used in the fast-food and hotel-motel industries. The concept is very adaptable to the international arena, and with some minor adjustments for the local market, it can result in a highly profitable business. In fast foods, McDonald's, Burger King, and Kentucky Fried Chicken have used franchise arrangements to expand into new markets. In the hotel business, Holiday Inn, among others, has been very successful in gaining worldwide presence through the effective use of franchisees.

Franchise agreements typically require payment of a fee up front and then a percentage of the revenues. In return, the franchisor provides assistance and, in some instances, may require the purchase of goods or supplies to ensure the same quality of

Table 9–3
Partial Comparison of Global Strategic Alliances

Strategy	Organization Design	Advantages	Disadvantages	Critical Success Factors	Strategic Human Resources Management
Licensing—manufacturing industries	Technologies	Early standardization of design Ability to capitalize on innovations Access to new technologies Ability to control pace of industry evolution	New competitors created Possible eventual exit from industry Possible dependence on licensee	Selection of licensee unlikely to become a competitor Enforcement of patents and licensing agreements	Technical knowledge Training of local managers on-site
Licensing—servicing and franchises	Geography	Fast market entry Low capital cost	Quality control Trademark protection	Partners compatible in philosophies/values Tight performance standards	Socialization of franchisees and licensees with core values
Joint ventures—specialization across partners	Function	Learning a partner's skills Economies of scale Quasivertical integration Faster learning	Excessive dependence on partner for skills Deterrent to internal investment	Tight and specific performance criteria Entering a venture as "student" rather than "teacher" to learn skills from partner Recognizing that collaboration is another form of competition to learn new skills	Management development and training Negotiation skills Managerial rotation
Joint venture—shared value-adding	Product or line of business	Strengths of both partners pooled Faster learning along value chain Fast upgrading of technologic skills	High switching costs Inability to limit partner's access to information	Decentralization and autonomy from corporate parents Long "courtship" period Harmonization of management styles	Team-building Acculturation Flexible skills for implicit communication

Source: From David Lei and John W. Slocum Jr., "Global Strategic Alliances: Payoffs and Pitfalls," *Organizational Dynamics*, Winter 1991, p. 48. Copyright © 1991 Elsevier. Reprinted with permission.

goods or services worldwide. Franchising can be beneficial to both groups: It provides the franchisor with a new stream of income and the franchisee with a time-proven concept and products or services that can be quickly brought to market.

The Organization Challenge

A natural outgrowth of general international strategy formulation and implementation and specific decisions about how best to enter international markets is the question of how best to structure the organization for international operations. A number of MNCs have recently been rethinking their organizational approaches to international operations.

An excellent illustration of worldwide reorganizing is provided by Coca-Cola, which now delegates a great deal of authority for operations to the local level. This move is designed to increase the ability of the worldwide divisions to respond to their local markets. As a result, decisions related to advertising, products, and packaging are handled by international division managers for their own geographic regions. As an example, in Turkey the regional division has introduced a new pear-flavored drink, while Coke's German operation launched a berry-flavored Fanta. This "local" approach was designed to help Coke improve its international reputation, although Coke's new management is rethinking some aspects of this approach in the face of increasing cost pressures.[15] Even so, Coke continues to diversify its offerings, despite an initial increase in cost. In Brazil, for example, Coke was losing market share as local soda companies were offering low-priced carbonated beverages. Coke offered only three bottle sizes, and simply cutting the price of those did not seem to gain anything for the company. Now, Coke offers 18 different sizes in Brazil, which include many reusable glass bottles that can be returned for credit. While this has not increased market share, it has boosted profits.[16]

A second example of how firms are meeting international challenges through reorganization is provided by Li & Fung, Hong Kong's largest export trading company and an innovator in the development of supply chain management. The company has global suppliers worldwide that are responsible for providing the firm with a wide range of consumer goods ranging from toys to fashion accessories to luggage. In recent years Li & Fung reorganized and now manages its day-to-day operations through a group of product managers who are responsible for their individual areas. This new organizational arrangement emerged in a series of steps. In the late 1970s, the company was a regional sourcing agent. Big international buyers would come to Li & Fung for assistance in getting materials and products because the MNC was familiar with the producers throughout Asia and it knew the complex government regulations and how to successfully work through them. The MNC then moved into a more sophisticated stage in which it began developing the entire process for the buyer from concept to prototype to delivery of the goods. By the late 1980s, however, Hong Kong had become a very expensive place to manufacture products, and Li & Fung changed its approach and began organizing around a new concept called "dispersed manufacturing," which draws heavily on dissection of the value chain and coordinating the operations of many suppliers in different geographic locations. For example, when the MNC receives an order from a European retailer to produce a large number of dresses, it has to decide where to buy the yarn in the world market, which companies should get the orders to weave and dye the cloth, where supplemental purchases such as buttons and zippers should be made, and how final shipment must be made to the customer. Commenting on this overall process, the company president noted:

> This is a new type of value added, a truly global product that has never been seen before. The label may say "Made in Thailand," but it's not a Thai product. We dissect the manufacturing process and look for the best solution at each step. We're not asking which country can do the best job overall. Instead, we're pulling apart the value chain and optimizing each step—and we're doing it globally. Not only do the benefits outweigh the costs of logistics and transportation, but the higher value added also lets us charge more for our services. We deliver a sophisticated product and we deliver it fast. If you talk to the big global consumer products companies, they are all moving in this direction—toward being best on a global scale.[17]

Basic Organizational Structures

The preceding examples of Coca-Cola and Li & Fung suggest how MNCs are dramatically reorganizing their operations to compete more effectively in the international arena. For all MNCs following this strategic route, a number of basic organization structures need to be considered. In many cases, the designs are similar to those used domestically; however, significant differences may arise depending on the nature and scope of the overseas businesses and the home office's approach to controlling the foreign operation. Ideally, an overseas affiliate or subsidiary will be designed to respond to specific concerns, such as production technology or the need for specialized personnel. The overall goal, however, is to meet the needs of both the local market and the home-office strategy of globalization.

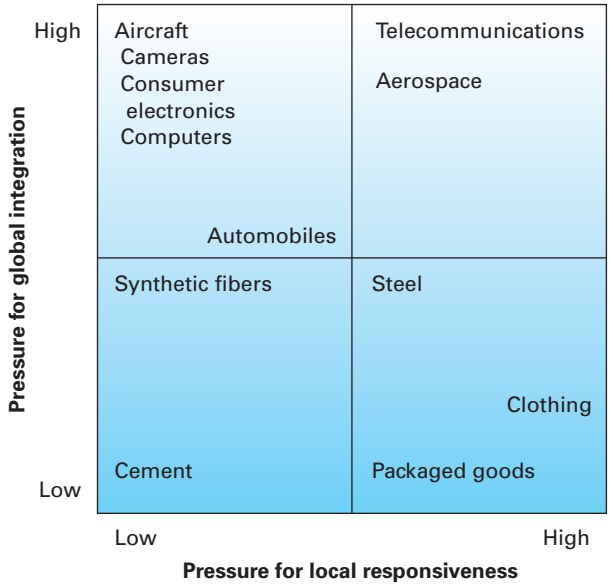
Figure 9–1 illustrates how the pressures for global integration and local responsiveness play out in a host of industries. As an MNC tries to balance these factors, an if-then contingency approach can be used. *If* the strategy needed to respond quickly to the local market changes, *then* there will be accompanying change in the organizational structure. Despite the need for such a flexible, fast-changing, contingency-based approach, most MNCs still slowly evolve through certain basic structural arrangements in international operations. The following sections examine these structures, beginning with initial, pre-international patterns.[18]

Initial Division Structure

Many firms make their initial entry into international markets by setting up a subsidiary or by exporting locally produced goods or services. A subsidiary is a common organizational arrangement for handling finance-related businesses or other operations that require an on-site presence from the start. In recent years, many service organizations have begun exporting their expertise. Examples include architectural services, legal services, advertising, public relations, accounting, and management consulting. Research and development firms also fall into this category, exporting products that have been successfully developed and marketed locally.

An export arrangement is a common first choice among manufacturing firms, especially those with technologically advanced products. Because there is little, if any, com-

Figure 9–1
Organizational Expectations of Internationalization



Source: Adapted from Paul W. Beamish, J. Peter Killing, Donald J. LeCraw, and Harold Crookell, *International Management: Text and Cases* (Homewood, IL: Irwin, 1991), p. 99.

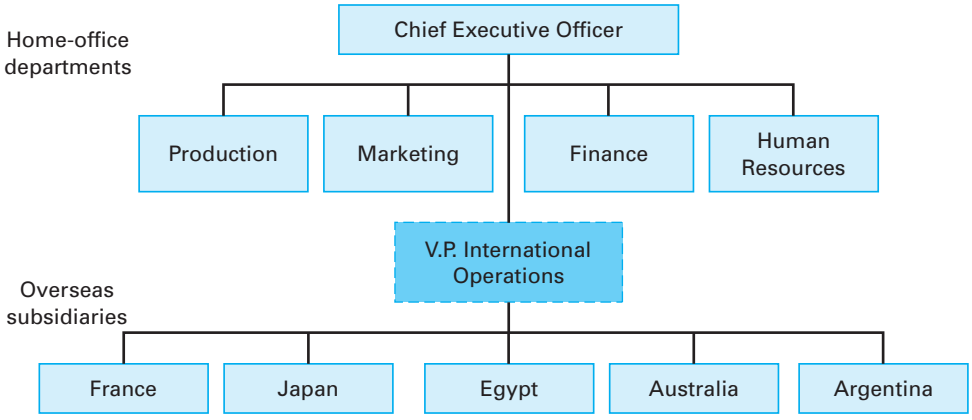


Figure 9–2
Use of Subsidiaries During the Early Stage of Internationalization

petition, the firm can charge a premium price and handle sales through an export manager. If the company has a narrow product line, the export manager usually reports directly to the head of marketing, and international operations are coordinated by this department. If the firm has a broad product line and intends to export a number of different products into the international market, the export manager will head a separate department and often report directly to the president. These two arrangements work well as long as the company has little competition and is using international sales only to supplement domestic efforts. Furthermore, an export arrangement allows the firm to reduce the risk and size of investment in establishing significant international operations while at the same time testing the size of international markets.

If overseas sales continue to increase, local governments often exert pressure in these growing markets for setting up on-site manufacturing operations. A good example is the General Motors joint venture in China, where a large percentage of all parts are made locally. Additionally, many firms find themselves facing increased competition in the foreign market. Establishing foreign manufacturing subsidiaries can help the MNC deal with both of these pressures. The overseas plants show the government that the firm wants to be a good local citizen. At the same time, these plants help the MNC greatly reduce transportation costs, thus making the product more competitive. This new structural arrangement often takes a form similar to that shown in Figure 9–2. Each foreign subsidiary is responsible for operations within its own geographic area, and the head of the subsidiary reports either to a senior executive who is coordinating international operations or directly to the home-office CEO.

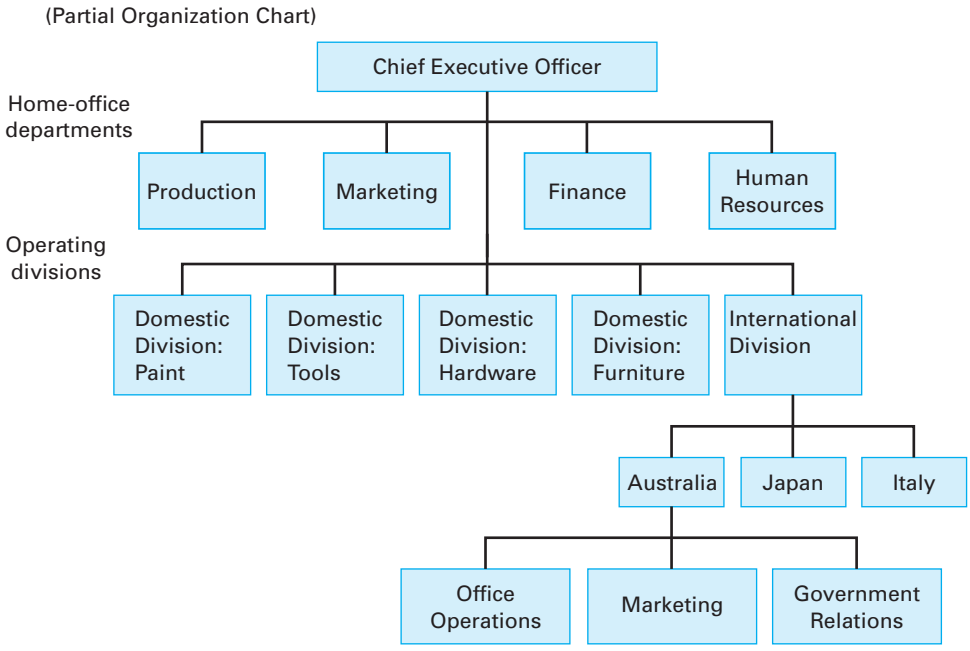
International Division Structure

If international operations continue to grow and require more control, subsidiaries commonly are grouped into an **international division structure,** which handles all international operations out of a division that is created for this purpose. In other words, a unit is added on simply to deal with international issues, while the original organizational structure is left intact. This structural arrangement is useful as it takes a great deal of the burden off the CEO for monitoring the operations of a series of overseas subsidiaries as well as domestic operations. Instead, the new head of the international division coordinates and monitors overseas activities and reports directly to the CEO on these matters. Figure 9–3 provides an example. PepsiCo reorganized its international soft drink division into six such geographic business units covering 150 countries in which Pepsi does business. Each geographic unit has self-sufficient operations and broad local authority.

international division structure
A structural arrangement that handles all international operations out of a division created for this purpose.

Companies still in the developmental stages of international business involvement are most likely to adopt the international division structure. Others that use this structural arrangement include those with small international sales, limited geographic diversity, or few executives with international expertise.

Figure 9–3
An International Division Structure



A number of advantages are associated with use of an international division structure. The grouping of international activities under one senior executive ensures that the international focus receives top management's attention. This structural arrangement also allows the company to develop an overall, unified approach to international operations, as well as a cadre of internationally experienced managers.

At the same time, the use of this structure does have a number of drawbacks. The structure separates the domestic and international managers, which can result in two different camps with divergent objectives. Also, as the international operation grows larger, the home office may find it difficult to think and act strategically and to allocate resources on a global basis; thus, the international division may be penalized. Finally, most R&D efforts are domestically oriented, so ideas for new products or processes in the international market often are given low priority.

Global Structural Arrangements

MNCs typically turn to global structural arrangements when they begin acquiring and allocating their resources based on international opportunities and threats. The global structural arrangement differs from the international division structure because, while both have an international scope, the former focuses on greater expansion and integration among international operations. This international perspective signifies a major change in management strategy, and it is supported by the requisite changes in organization structure. It is important to remember that a structural framework is chosen only after the basic strategy is formulated, not vice versa. Global structures come in three common types: product, area, and functional.

global product division
A structural arrangement in which domestic divisions are given worldwide responsibility for product groups.

Global Product Division A **global product division** is a structural arrangement in which domestic divisions are given worldwide responsibility for product groups. Figure 9–4 provides an illustration. As shown, the manager who is in charge of product division C has authority for this product line on a global basis. This manager also has internal functional support related to the product line. For example, all marketing, production, and finance activities associated with product division C are under the control of this manager.

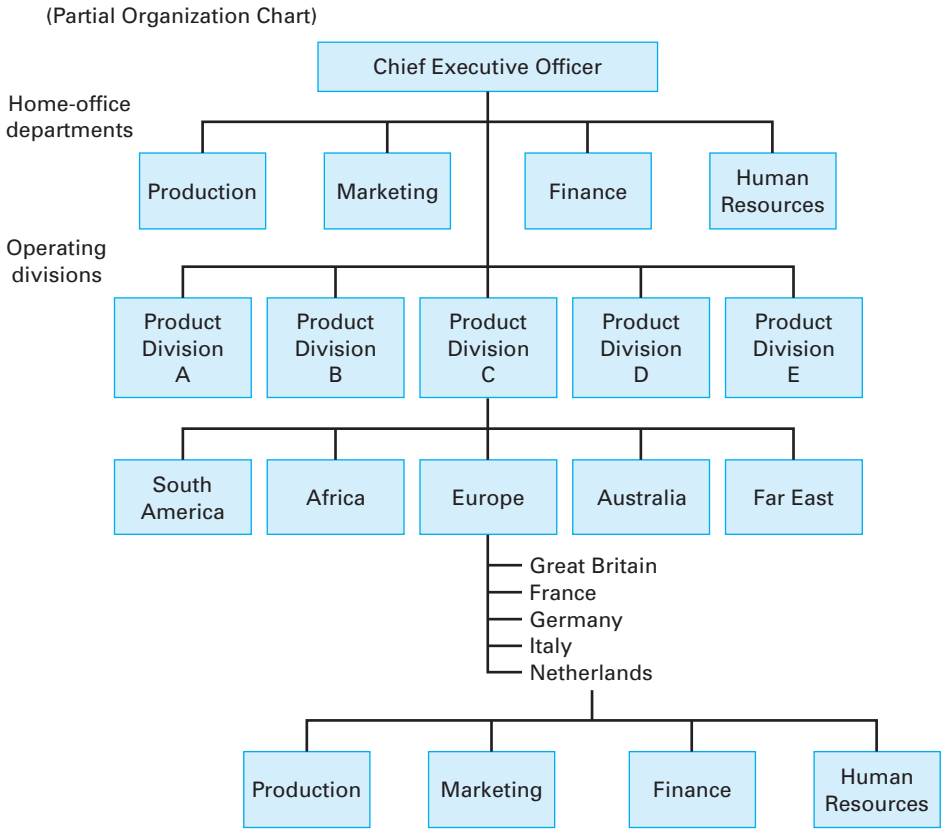


Figure 9–4
A Global Product Division Structure

The global product divisions operate as profit centers. The products are generally in the growth stage of the product life cycle, so they need to be promoted and marketed carefully. In doing so, global product division managers generally run the operation with considerable autonomy; they have the authority to make many important decisions regarding the product. However, corporate headquarters usually will maintain control in terms of budgetary constraints, home-office approval for certain decisions, and mainly "bottom-line" (i.e., profit) results.

A global product structure provides the most benefits when the need for product specification or differentiation in different markets is high. This often occurs when companies offer a variety of products, the customer base is extremely diverse, or goods must be modified to match local tastes (e.g., food or toys). Creating divisions which specialize in each product set results in efficient alterations, especially since marketing, production, and finance can be coordinated on a product-by-product basis. Furthermore, if a product is in a different life cycle (mature versus growth stage) across regions, global product divisions can ensure that each location responds appropriately. Other advantages of a global product division structure can be summarized as follows:

> It preserves product emphasis and promotes product planning on a global basis; it provides a direct line of communication from the customer to those in the organization who have product knowledge and expertise, thus enabling research and development to work on development of products that serve the needs of the world customer; and it permits line and staff managers within the division to gain an expertise in the technical and marketing aspects of products assigned to them.[19]

Unfortunately, the approach also has some drawbacks. One is the necessity of duplicating facilities and staff personnel within each division. A second is that division managers may pursue currently attractive geographic prospects for their products and

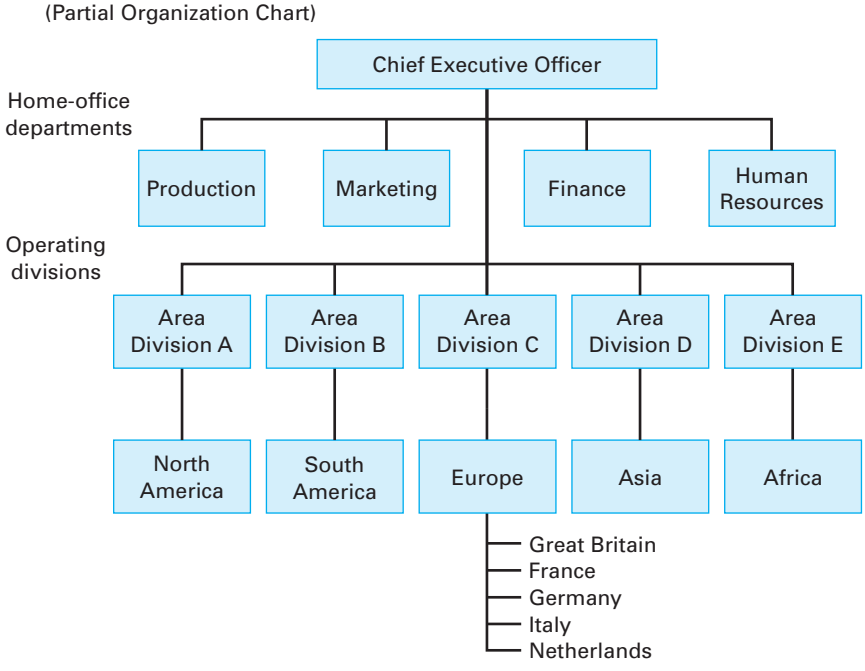
neglect other areas with better long-term potential. A third is that many division managers spend too much time trying to tap the local rather than the international market because it is more convenient and they are more experienced in domestic operations.

global area division
A structure under which global operations are organized on a geographic rather than a product basis.

Global Area Division Instead of a global product division, some MNCs prefer to use a **global area division.** In this structure, illustrated in Figure 9–5, global operations are organized based on a geographic rather than a product orientation. This approach often signals a major change in company strategy, because now international operations are put on the same level as domestic operations. In other words, European or Asian operations are just as important to the company as North American operations. For example, when British Petroleum purchased Standard Oil of Ohio, the firm revised its overall structure and adopted a global area division structure. Under this arrangement, global division managers are responsible for all business operations in their designated geographic area. The CEO and other members of top management are charged with formulating the overall strategy that ensures that the global divisions all work in harmony.

A global area division structure most often is used by companies that are in mature businesses and have narrow product lines which are differentiated by geographic area. For example, the product has a strong demand in Europe but not in South America, or the type of product that is offered in France differs from that sold in England. This is different from the global product division structure because each division focuses on regional tastes and offers specialized products for and within that area, as opposed to focusing on a product set and discovering where it can survive and subsequently distributing it to that region. In addition, the MNC usually seeks high economies of scale for production, marketing, and resource-purchase integration in a particular area. Thus, by manufacturing in this region rather than bringing the product in from somewhere else, the firm is able to reduce cost per unit and offer a very competitive price. The geographic structure also allows the division manager to cater to the tastes of the local market and make rapid decisions to accommodate environmental changes. A good example is food products. In the United States, soft drinks have less sugar than in South America, so the manufacturing process must be slightly different in these two locales. Similarly, in England, people prefer bland soups, but in France, the preference is for mildly spicy. A

Figure 9–5
A Global Area Division Structure



global area structure allows the geographic unit in a foods company to accommodate such local preferences.

The primary disadvantage of the global area division structure is the difficulty encountered in reconciling a product emphasis with a geographic orientation. For example, if a product is sold worldwide, a number of different divisions are responsible for sales. This lack of centralized management and control can result in increased costs and duplication of effort on a region-by-region basis. A second drawback is that new R&D efforts often are ignored by division groups because they are selling goods that have reached the maturity stage. Their focus is not on the latest technologically superior goods that will win in the market in the long run but on those that are proven winners and now are being marketed conveniently worldwide.

Global Functional Division A **global functional division** organizes worldwide operations based primarily on function and secondarily on product. This approach is not widely used other than by extractive companies, such as oil and mining firms. Figure 9–6 provides an example.

global functional division
A structure that organizes worldwide operations primarily based on function and secondarily on product.

A number of important advantages are associated with the global functional division structure. These include (1) an emphasis on functional expertise, (2) tight centralized control, and (3) a relatively lean managerial staff. There also are some important disadvantages: (1) Coordination of manufacturing and marketing often is difficult; (2) managing multiple product lines can be very challenging because of the separation of production and marketing into different departments; and (3) only the chief executive officer can be held accountable for the profits. As a result, the global functional process structure typically is favored only by firms that need tight, centralized coordination and control of integrated production processes and firms that are involved in transporting products and raw materials from one geographic area to another.

Mixed Organization Structures Some companies find that neither a global product, an area, or a functional arrangement is satisfactory. Instead they opt for a **mixed organization structure,** which combines all three into an MNC that supplements its primary structure with a secondary one and, perhaps, a tertiary one. For example, if a company uses a global area approach, committees of functional managers may provide assistance and support to the various geographic divisions. Conversely, if the firm uses a global functional approach, product committees may be responsible for coordinating transactions that cut across functional lines. In other cases, the organization will opt for a matrix structure that results in managers' having two or more bosses. Figure 9–7 illustrates this structure. In this arrangement, the MNC coordinates geographic and product lines through use of a matrix design.

mixed organization structure
A structure that is a combination of a global product, area, or functional arrangement.

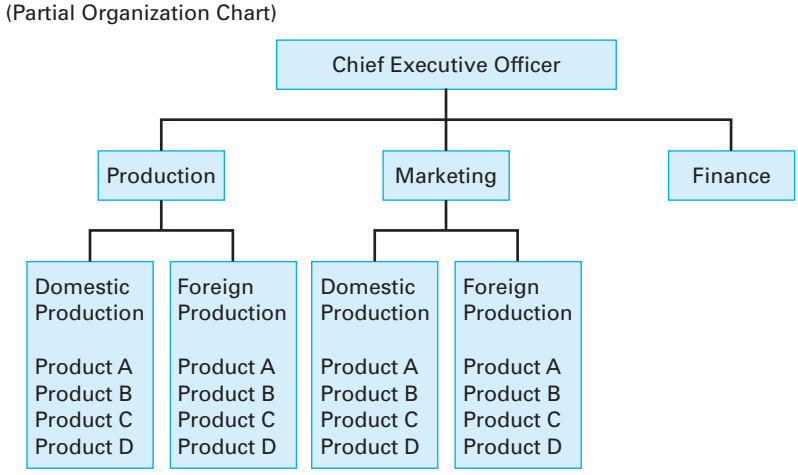
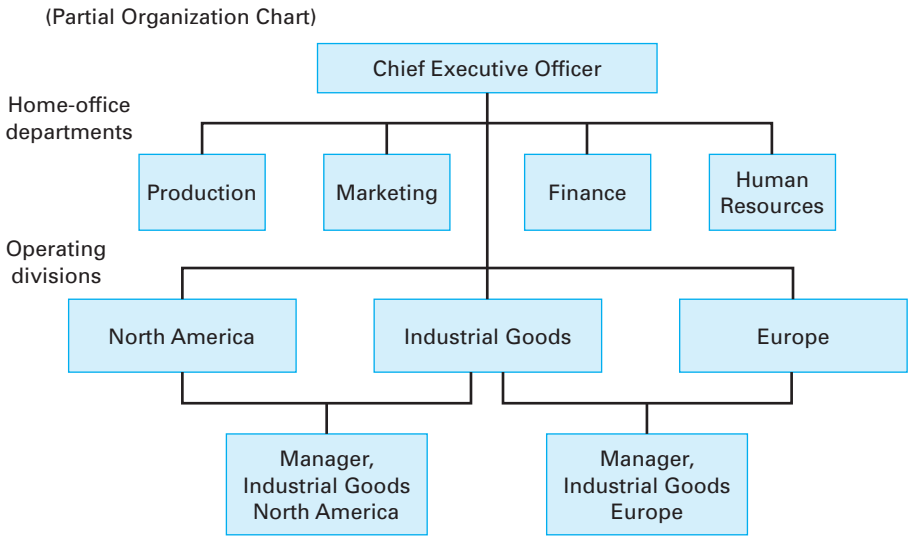


Figure 9–6
A Global Functional Structure

Figure 9–7
A Multinational Matrix Structure



In recent years, mixed organization structures have become increasingly popular. Sony's electronic businesses, including personal computers and cable-television set-top boxes, have been unified in one group. The company has also created a new division that will focus exclusively on the mobile phone business. In addition, the firm has created a management group called the "Global Hub" that will coordinate strategy across a host of Sony units including financial services, games, Internet services, and entertainment. Quite clearly, the company feels that it needs a mixed structure in order to juggle all its worldwide holdings. Many other companies use a mixed structure, and one survey has found that more than one-third of the responding firms employ this organizational arrangement, while nearly one-fifth utilize global product divisions, and only about one-tenth exhibit initial division structures. Many advantages can be gleaned from a mixed organization structure. In particular, it allows the organization to create the specific type of design that best meets its needs. However, there are shortcomings associated with matrix structures. The most important is that as the matrix design's complexity increases, coordinating the personnel and getting everyone to work toward common goals often become difficult; too many groups go their own way. Thus, many MNCs have not opted for a matrix structure; they have found that simple, lean structures are the best design for them.

Transnational Network Structures

transnational network structure
A multinational structural arrangement that combines elements of function, product, and geographic designs, while relying on a network arrangement to link worldwide subsidiaries.

Besides matrix structures, another alternative international organizational design to recently emerge is the **transnational network structure.** This is designed to help MNCs take advantage of global economies of scale while also being responsive to local customer demands. The design combines elements of classic functional, product, and geographic structures while relying on a network arrangement to link the various worldwide subsidiaries. This configuration may appear very similar to the matrix, but it is much more complex. While the matrix may use more than one strategy to supplement inefficient operations, it is still fairly centralized in the sense that decisions are balanced between the main headquarters and international subsidiaries. Transnational networks, however, are convoluted integrations of business functions and communications where decisions are made at the local level, but each grouping informs headquarters and sometimes each other. At the center of the transnational network structure are nodes, which are units charged with coordinating product, functional, and geographic information. Different product line units and geographical area units have different structures depending on what is best for their particular operations. A good example of how the transnational network structure works is provided by N.V. Philips, which has operations in more

than 60 countries and produces a diverse product line ranging from light bulbs to defense systems. In all, the company has eight product divisions with a varying number of subsidiaries in each—and the focus of these subsidiaries varies considerably. Some specialize in manufacturing, others in sales; some are closely controlled by headquarters, and others are highly autonomous.

The basic structural framework of the transnational network consists of three components: dispersed subunits, specialized operations, and interdependent relationships. *Dispersed subunits* are subsidiaries that are located anywhere in the world where they can benefit the organization. Some are designed to take advantage of low factor costs, while others are responsible for providing information on new technologies or consumer trends. *Specialized operations* are activities carried out by subunits that focus on particular product lines, research areas, and marketing areas, and are designed to tap specialized expertise or other resources in the company's worldwide subsidiaries. *Interdependent relationships* are used to share information and resources throughout the dispersed and specialized subunits.

The transnational network structure is difficult to draw in the form of an organization chart because it is complex and continually changing. However, Figure 9–8 provides a view of N.V. Philips's network structure. These complex networks can be compared to some of the others that have been examined earlier in this chapter by looking at the ways in which the enterprise attempts to exercise control. Table 9–4 provides such a comparison.

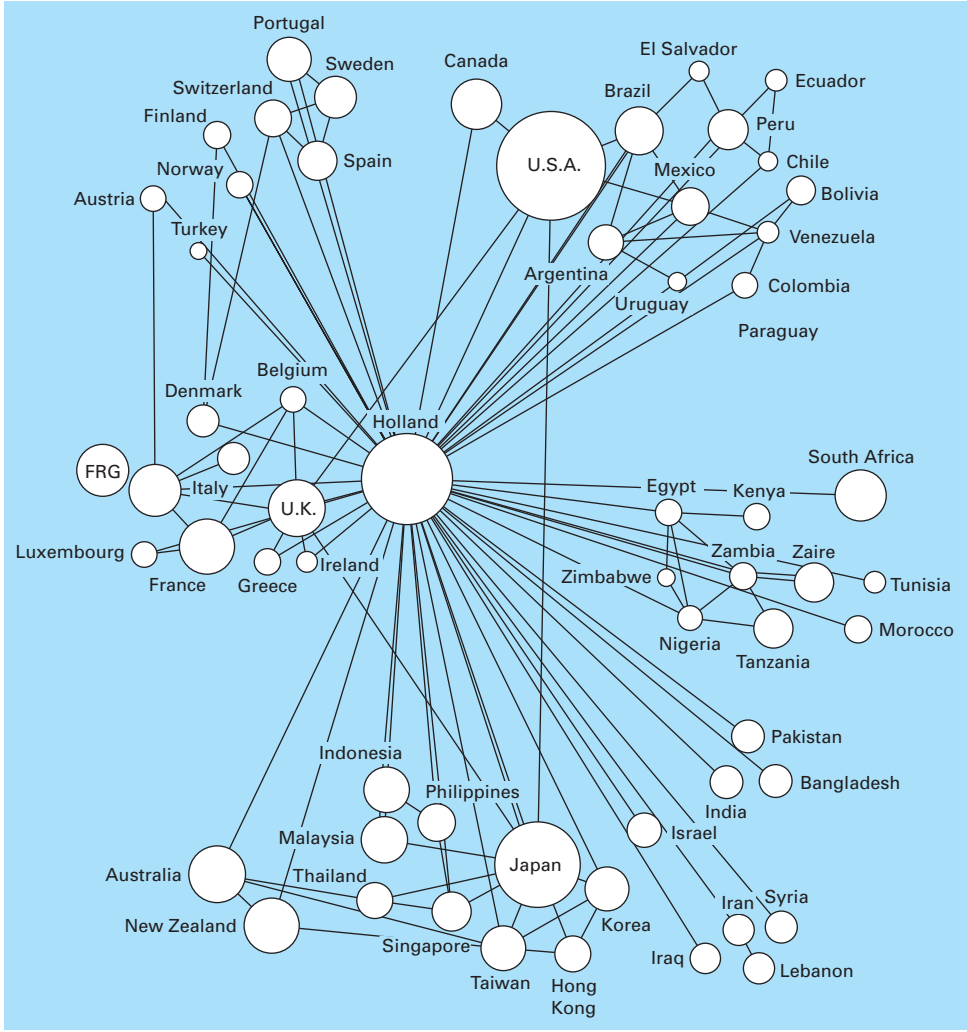


Figure 9–8

The Network Structure of N.V. Philips

Table 9–4
Control Mechanisms Used in Select Multinational Organization Structures

Type of Multinational Structure	Output Control	Bureaucratic Control	Decision-Making Control	Cultural Control
International division structure	Profit control.	Have to follow company policies.	Typically there is some centralization.	Treated like all other divisions.
Global area division	Use of profit centers.	Some policies and procedures are necessary.	Local units are given autonomy.	Local subsidiary culture is often the most important.
Global product division	Unit output for supply; sales volume for sales.	Tight process controls are used to maintain product quality and consistency.	Centralized at the product-division headquarters level.	Possible for some companies, but not always necessary.
Matrix structure	Profit responsibility is shared with product and geographic units.	Not very important.	Balanced between the global area and product units.	Culture must support the shared decision making.
Transnational network structure	Used for supplier units and for some independent profit centers.	Not very important.	Few decisions are centralized at headquarters; most are centralized in the key network nodes.	Organization culture transcends national cultures, supports sharing and learning, and is the most important control mechanism.

Nontraditional Organizational Arrangements

In recent years, MNCs have increasingly expanded their operations in ways that differ from those used in the past. These include acquisitions, joint ventures, keiretsus, and strategic alliances. These organizational arrangements do not use traditional hierarchical structures and therefore cannot be shown graphically. The following sections describe how they work.

Organizational Arrangements from Mergers, Acquisitions, Joint Ventures, and Alliances

A recent development affecting the way that MNCs are organized is the increased use of mergers and acquisitions (M&As). In recent years, the annual value of worldwide M&As has reached as high as $6 trillion!

Among the larger cross-border M&A deals was Inbev's purchase of Anheuser Busch for $52 billion in 2009. Inbev, a Belgium-based firm with Brazilian management, had been known for a ruthless style and moved quickly to integrate Anheuser Busch into its global structure. It cut costs, laid off employees, and imposed discipline on a culture that it viewed as bloated and inefficient. From November 2008, just before the merger was announced, until January 2010, ABInbev (the new name for the combined company) saw its stock price increase nearly triple in value, suggesting analysts and investors approved of the new approach.[20] By contrast the Roche-Genentech tie-up appears to deliberately seek to maintain some postmerger separation in order to preserve the more innovative culture of the biotech firm.[21]

Other examples of recent organizational arrangements include joint-venture and strategic alliance agreements in which each party contributes to the undertaking and coordinates its efforts for the overall benefit of the venture.[22] These arrangements can

take a variety of forms,[23] although the steps that are followed in creating and operating them often have a fair amount of similarity.

One recent example of such an initiative was when a relatively new Abu Dhabi aviation company, Abu Dhabi Aircraft Technologies, owned by the oilrich sheikdom's Mubadala Development, began an $800 million joint venture with Sikorsky, a division of U.S.-based United Technologies Group, to service military aircraft in the Middle East. This JV was designed, in part, to help support the emirate's efforts to develop a domestic aircraft and avionics industry. The JV will provide maintenance, repair, and overhaul services to the Emirati armed forces and other military forces in the region. "Putting these two companies together will be the right move to capture the lucrative market in the region," Homaid al-Shemmari, chairman of Abu Dhabi Aircraft, told the Associated Press. "With our local knowledge and reach . . . and the capabilities Sikorsky can bring from the U.S., it's a perfect match."

The JV will initially be housed at a facility in Al Ain, an Emirati city about 100 miles east of the capital Abu Dhabi, on the border with Oman. Interestingly, it will also operate on Emirati military bases, with an initial focus on servicing some of the country's more than 400-strong fleet, which includes Mirage fighters from France and American-made F-16 planes and Apache attack helicopters.[24]

Another example is the longstanding joint venture between General Motors and Shanghai Automotive Industry Corporation (S.A.I.C.), which produces the Wuling line of trucks and vans targeted to rural areas of China. Recently, these JV partners announced they would introduce a new passenger-car brand called Baojun, which means "treasured horse." This basic car line will be targeted at buyers outside China's major metropolitan areas. This joint venture became the first automaker to sell more than 1 million vehicles in China.[25]

These joint ventures require carefully formulated structures that allow each partner to contribute what it does best and to coordinate their efforts efficiently. This calls for clearly spelling out the responsibilities of all parties and identifying the authority that each will have for meeting specific targets.

One of the main objectives in developing the structure for joint ventures is to help the partners address and effectively meld their different values, management styles, action orientation, and organization preferences. Figure 9–9 illustrates how Western and Asian firms differ in these four areas; the figure also is useful for illustrating the types of considerations that need to be addressed by MNCs from the same area of the world. Consider, for example, Matsushita Electric Industrial and Hitachi Ltd. The two agreed to join forces to develop new technology in three areas: smart cards, home network systems, and recyclable and energy-efficient consumer electronics.[26] The two firms will need to structure their organizational interface carefully to ensure effective interaction, coordination, and cooperation.

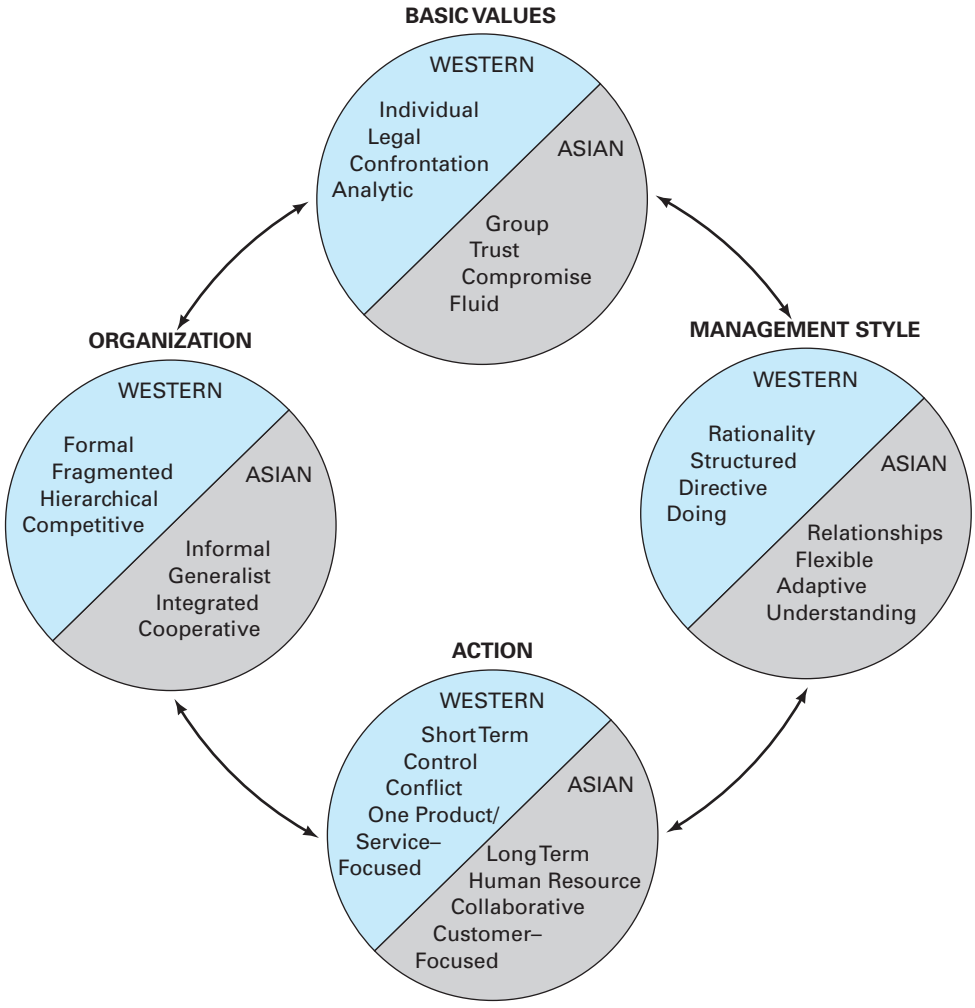
In each of these examples, the purchasing MNCs fashioned a structural arrangement that attempts to promote synergy while encouraging local initiative by the acquired firm. The result is an organization design that draws on the more traditional structures that have been examined here but still has a unique structure specifically addressing the needs of the two firms.

In fact, strategic partners are so important to the success of many MNCs that it is common to find them giving their partners direct access to their own computer systems. In this way, for example, an outsourcer can quickly determine the MNC's supply needs and adjust its own production schedule to meet these demands. This same type of close working B2B arrangement is used when providing services. For example, IBM works closely with the giant French MNC Thomson Multimedia SA, managing the firm's data centers, desktops, help desk, disaster recovery, and support services.[27]

Many companies are finding that M&As do not work out or they involve a considerable financial risk because of the high sales price. Joint ventures and strategic alliances are a good alternative. They provide MNCs with the opportunity to access a wide variety of competencies, thus reducing their own costs while ensuring that they have a reliable provider. In addition, joint ventures and strategic alliances help promote cooperation between the participating organizations.[28]

Figure 9–9

A Comparison of Asian and Western Management Features



Source: Frederic Swierczek and Georges Hirsch, "Joint Ventures in Asia and Multicultural Management," *European Management Journal,* June 1994, p. 203. Copyright European Management Journal.

The Emergence of the Electronic Network Form of Organization

Over the last few years there has been a major increase in the number of "electronic freelancers"—individuals who work on a project for a company, usually via the Internet, and move on to other employment when the assignment is done. In a way, these individuals represent a new type of electronic network organization—"temporary companies"—that serve a particular, short-term purpose and then go on to other assignments. There are numerous examples.

Consider the way many manufacturers are today pursuing radical outsourcing strategies, letting external agents perform more of their traditional activities. The U.S. computer-display division of the Finnish company Nokia, for example, chose to enter the U.S. display market with only five employees. Technical support, logistics, sales, and marketing were all subcontracted to specialists around the country. The fashion accessories company Topsy Tail, which has revenues of $80 million but only three employees, never even touches its products through the entire supply chain. It contracts with various injection-molding companies to manufacture its goods; uses design agencies to create its packaging; and distributes and sells its products through a network of independent fulfillment houses, distributors, and sales reps. Nokia's and Topsy Tail's highly decentralized operations bear more resemblance to the network model of organization than to the traditional industrial model.[29]

Many multinationals are beginning to rely increasingly on electronic freelancers (e-lancers, for short) to perform key tasks for them. In the case of General Motors, for example, outsourcers via computers work very closely with the company in providing

both design and engineering assistance. The rise of the multinational university is yet another example. Growing numbers of academic institutions from Europe to North America are now offering both undergraduate and graduate courses, and in some cases full-fledged degree programs, via the Internet. In staffing these courses, the universities rely heavily on e-lancers with PhD degrees who are responsible for delivering the courses online. In most cases, the university has little face-to-face contact with these e-lancers. Everything is done via computers.

These electronic network organizations are now becoming increasingly prominent. MNCs are realizing that the outsourcing function can be delivered online. Examples include design specifications, analytical computations, and consulting reports. So, in a way, this new structure is a version of the matrix design discussed earlier in the chapter. The major difference is that many of the people in the structure not only are temporary, contingent employees but never see each other and communicate exclusively in an electronic environment.

Organizing for Product Integration

Another recent organizing development is the emergence of designs that are tailored toward helping multinationals integrate product development into their worldwide operations. In the recent past, the use of cross-functional coordination was helpful in achieving this goal. However, MNCs have found that this arrangement results in people spending less time within their functions and thus becoming less knowledgeable regarding developments that are occurring in their specialized areas. A second shortcoming of the cross-functional approach is that it often leads to product teams becoming autonomous and thus failing to integrate their overall efforts with the organization at large.

Toyota created a structure that combines a highly formalized system with new structural innovations that ensure that projects are flexibly managed and, at the same time, able to benefit from the learning and experiences of other projects. In accomplishing this, Toyota employs six organizational mechanisms.

One of these is called mutual adjustment. In most companies this is achieved by assigning people to a specific project and having them meet face to face and work out a plan of action for designing the new product. At Toyota, however, design engineers are not assigned to specific projects; rather they remain in their functional area and typically communicate through written messages. This approach ensures that all members remain dedicated to their primary functional area and that they communicate succinctly and directly with each—thus saving time.

A second mechanism employed by Toyota is the use of direct, technically skilled supervisors. In a typical arrangement, design engineers are led by individuals who are no longer doing engineering work; they are primarily responsible for seeing that others do this work. However, at Toyota supervisors remain highly skilled in the technical side of the work and are responsible for mentoring, training, and developing their engineers. So if anyone has a design-related problem, the supervisor is technically skilled and can provide this assistance.

A third mechanism is the use of integrative leadership. In typical product design structures, the manager in charge has full authority and relies on the engineering personnel to get the work done within time, cost, and quality parameters. At Toyota, however, these managers are responsible for coordinating the work of the functional specialists and serving less as a manager than as a lead designer on the entire project. In this way, they serve as the glue that binds together the whole process.

In typical design operations, engineers are hired from universities or from other companies where they have gained experience, and they remain in their engineering position indefinitely. At Toyota most of the technical training is provided in-house, and people are rotated within only one function, such as body engineers who work on auto-body subsystems for most, if not all, of their careers. As a result, they are able to get more work done faster because they do not have to communicate and coordinate continually with their counterparts regarding what needs to be done. They are so familiar with their jobs that they know what needs to be done.

Another organizational difference is that in typical design work each new product calls for a new development process, and there are complex forms and bureaucratic procedures for ensuring that everything is done correctly. At Toyota, standard milestones are created by the project leader, and simple forms and procedures are employed so that the work can be done simply and efficiently.

A final difference is that in many organizations design standards are obsolete and rigid. At Toyota, these standards are maintained by the people who are doing the work and are continually changed to meet new design demands.

The organizational approach used at Toyota is being carefully studied by other world-class auto manufacturers, who are coming to realize that the old way of organizing for product design is not sufficiently effective for dealing with the competitive challenges of the new millennium. In particular, a new organizational emphasis has to be placed on better blending the personnel and the work. Commenting on all of this, a group of experts who studied Toyota's approach wrote:

> The success of Toyota's system rides squarely on the shoulders of its people. Successful product development requires highly competent, highly skilled people with a lot of hands-on experience, deep technical knowledge, and an eye for the overall system. When we look at all the things that Toyota does well, we find two foundations for its product-development system: chief engineers using their expertise to gain leadership, and functional engineers using their expertise to reduce the amount of communication, supervision, trial and error, and confusion in the process. All the other coordinating mechanisms and practices serve to help highly skilled engineers do their job effectively. By contrast, many other companies seem to aspire to develop systems "designed by geniuses to be run by idiots." Toyota prefers to develop and rely on the skill of its personnel, and it shapes its product-development process around this central idea: people, not systems, design cars.[30]

Organizational Characteristics of MNCs

Although MNCs have similar organizational structures, they do not all operate in the same way. A variety of factors that help explain the differences have been identified.[31] These include overall strategy, employee attitudes, and local conditions. Of particular significance to this discussion are the organizational characteristics of formalization, specialization, and centralization.

Formalization

formalization
The use of defined structures and systems in decision making, communicating, and controlling.

Formalization is the use of defined structures and systems in decision making, communicating, and controlling. Some countries make greater use of formalization than others; in turn, this affects the day-to-day organizational functioning. One large research study of Korean firms found that, unlike employees in the United States, Korean workers perceive more positive work environments when expectations for their jobs are set forth more strictly and formally. In short, Koreans respond very favorably to formalization.[32] Korean firms tend to be quite formal, but this may not hold throughout Asia. For example, a study that investigated whether Japanese organizations are more formalized than U.S. organizations found that although Japanese firms tend to use more labor-intensive approaches to areas such as bookkeeping and office-related work than their U.S. counterparts, no statistical data support the contention that Japanese firms are more formalized.[33]

Another study of U.S. and Japanese firms in Taiwan divided formalization into two categories: objective and subjective.[34] Objective formalization was measured by things such as the number of different documents given to employees, organizational charts, information booklets, operating instructions, written job descriptions, procedure manuals, written policies, and work-flow schedules and programs. Subjective formalization was measured by the extent to which goals were left vague and unspecified, informal controls were used, and culturally induced values facilitated getting things done.

Commenting on differences in the use of formalization, the researchers concluded that American and Japanese firms appear to have almost the same level of written goals

or objectives for subordinates, written standards of performance appraisals, written schedules, programs, and work specifications, written duties, authority, and accountability. However, managers in Japanese firms perceive less formalization than do managers in American firms. Less reliance on formal rules and structure in Japanese firms is also revealed by the emphasis on a face-to-face or behavioral mode of control indicated by the ratio of foreign expatriates to total employees in subsidiaries.[35]

The study also found that U.S. MNCs tend to rely heavily on budgets, financial data, and other formalized tools in controlling their subsidiary operations. This contrasts with Japanese MNCs, in which wider use is made of face-to-face, informal controls. These findings reveal that although the outward structural design of overseas subsidiaries may appear to be similar, the internal functioning in characteristics such as formalization may be quite different.

In recent years, this formal-informal characteristic of organizations has become the focal point of increased scrutiny.[36] One reason is that MNCs now realize there are two dimensions of formality-informality that must be considered: internal and external. Moreover, to a large degree, these formal-informal relationships require different types of networking. As Yoshino and Rangan noted, there are two approaches that firms that must compete globally—and that includes most major firms—employ to achieve the layering of competitive advantages: (1) development of extensive *internal networks* of international subsidiaries in major national or regional markets and (2) forging *external networks* of strategic alliances with firms around the world. These approaches are not mutually exclusive, and increasingly firms are striving to build both types of networks.[37]

What is particularly interesting about these networking relationships is that each places a different set of demands on the MNC. In particular, external networking with joint-venture partners often involves ambiguous organizational mandates, less emphasis on systems and more on people, and ambiguous lines of authority. This is a marked difference from internal networking characteristics, where formality is much stronger than informality and the enterprise can rely on a shared vision, clear organizational mandates, and well-developed systems and lines of authority. Table 9–5 summarizes the characteristics of these internal and external networks.

Specialization

As an organizational characteristic, **specialization** is the assigning of individuals to specific, well-defined tasks. Specialization in an international context can be classified into horizontal and vertical specialization.

specialization
An organizational characteristic that assigns individuals to specific, well-defined tasks.

Table 9–5
Internal versus External Networks

Managerial Dimensions	Internal Network	External Network
Shared vision	Yes	No
Animating mindset	Cooperation	Cooperation and competition
Organizational mandates	Clear	Ambiguous
Organizational objective	Global optimization	Develop win-win approaches
Emphasis on systems	More	Less
Emphasis on people	Less	More
Lines of authority	Clear	Ambiguous at best

Source: Information drawn from Michael Yoshino and N. S. Rangan, *Strategic Alliances* (Boston: Harvard Business School Press, 1995), p. 203.

horizontal specialization
The assignment of jobs so that individuals are given a particular function to perform and tend to stay within the confines of this area.

vertical specialization
The assignment of work to groups or departments where individuals are collectively responsible for performance.

Horizontal specialization assigns jobs so that individuals are given a particular function to perform, and people tend to stay within the confines of this area. Examples include jobs in areas such as customer service, sales, recruiting, training, purchasing, and marketing research. When there is a great deal of horizontal specialization, personnel will develop functional expertise in one particular area.

Vertical specialization assigns work to groups or departments where individuals are collectively responsible for performance. Vertical specialization also is characterized by distinct differences between levels in the hierarchy such that those higher up are accorded much more status than those farther down, and the overall structure usually is quite tall.

In the earlier comparative study of 55 U.S. and 51 Japanese manufacturing plants, Japanese organizations had lower functional specialization of employees. Specifically, three-quarters of the functions listed were assigned to specialists in the U.S. plants, but less than one-third were assigned in the Japanese plants.[38] Later studies with regard to formalization have echoed this finding on specialization.

By contrast, studies find that the Japanese rely more heavily on vertical specialization. They have taller organization structures in contrast to the flatter designs of their U.S. counterparts. Japanese departments and units also are more differentiated than departments and units in U.S. organizations. Vertical specialization can be measured by the amount of group activity as well, such as in quality circles. Japanese firms make much greater use of quality circles than do U.S. firms. Vertical specialization also can result in greater job routinization. Because one is collectively responsible for the work, strong emphasis is placed on everyone's doing the job in a predetermined way, refraining from improvising, and structuring the work so that everyone can do the job after a short training period. Again, Japanese organizations make much wider use of job routinization than do U.S. organizations.

Centralization

centralization
A management system in which important decisions are made at the top.

decentralization
Pushing decision making down the line and getting the lower-level personnel involved.

Centralization is a management system in which important decisions are made at the top. In an international context, the value of centralization will vary according to the local environment and the goals of the organization. Many U.S. firms tend toward **decentralization,** pushing decision making down the line and getting the lower-level personnel involved. German MNCs centralize strategic headquarter-specific decisions independent of the host country and decentralize operative decisions in accordance with the local situation in the host country. The nearby International Management in Action, "Organizing in Germany," describes how relatively small German MNCs have been very successful with such a decentralization strategy. In some cases, large firms have also been very successful using a decentralized approach. Nokia, for example, has been described as "one of the least hierarchical big companies on earth, a place where it is often profoundly unclear who's in charge."[39] This hands-off approach promotes creativity, entrepreneurial effort, and personal responsibility. At the same time, however, in order to prevent operations from spinning out of control, the company exercises very tight financial discipline.

In contrast, researchers have found that Japanese organizations delegate less formal authority than their U.S. counterparts but permit greater involvement in decisions by employees lower in the hierarchy. At the same time, the Japanese manage to maintain strong control over their lower-level personnel by limiting the amount of authority given to the latter and carefully controlling and orchestrating worker involvement and participation in quality circles.[40] Other studies show similar findings.[41] When evaluating the presence of centralization by examining the amount of autonomy that Japanese give to their subordinates, one study concluded:

> In terms of job autonomy, employees in American firms have greater freedom to make their decisions and their own rules than in Japanese firms. . . . Results show that managers in American firms perceive a higher degree of delegation than do managers in Japanese firms. Also, managers in American firms feel a much higher level of participation in the coordinating with other units, . . . in influencing the company's policy related to their work, and in influencing the company's policy in areas not related to their work.[42]

Organizing in Germany

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Like every other place in the world, Europe in general and Germany in particular have gone through economic ups and downs. German labor unions, the most powerful in Europe, were having to give ground, and major corporations were scaling back operations and reporting losses. At the same time, a number of medium-sized and small German companies continued to be some of the most successful in the world. Part of this success resulted from their carefully designed decentralized organization structures, a result of company efforts to remain close to the customer. The goal of these German MNCs is to establish operations in overseas locales where they can provide on-site assistance to buyers. Moreover, in most cases these subsidiaries are wholly owned by the company and have centralized controls on profits.

A common practice among German MNCs is to overserve the market by providing more than is needed. For example, when the auto firm BMW entered Japan, its initial investment was several times higher than that required to run a small operation; however, its high visibility and commitment to the market helped to create customer awareness and build local prestige.

Another strategy is to leave expatriate managers in their positions for extended periods of time. In this way, they become familiar with the local culture and thus the market, and they are better able to respond to customer needs as well as problems. As a result, customers get to know the firm's personnel and are more willing to do repeat business with them.

Still another strategy the German MNCs use is to closely mesh the talents of the people with the needs of the customers. For example, there is considerable evidence that most customers value product quality, closeness to the customer, service, economy, helpful employees, technologic leadership, and innovativeness. The German firms will overperform in the area that is most important and thus further bond themselves to the customer.

A final strategy is to develop strong self-reliance so that when problems arise, they can be handled with in-house personnel. This practice is a result of German companies' believing strongly in specialization and concentration of effort. They tend to do their own research and to master production and service problems so that if there is a problem, they can resolve it without having to rely on outsiders.

How well do these German organizing efforts pay off? Many of these relatively small companies hold world market shares in the 70 to 90 percent range. These are companies that no one has ever heard of, such as Booder (fish-processing machines), Gehring (honing machines), Korber/Hauni (cigarette machines), Marklin & Cle (model railways), Stihl (chain saws), and Webasto (sunroofs for cars). Even so, every one of these companies is the market leader not only in Europe but also throughout the world, and in some cases its relative market strength is up to 10 times greater than that of the nearest competitor.

The finding related to influence is explained in more detail in Table 9–6. U.S. managers in Taiwanese subsidiaries felt that they had greater influence than did their Japanese counterparts. Moreover, when statistically analyzed, these data proved to be significant.

Putting Organizational Characteristics in Perspective

MNCs tend to organize their international operations in a manner similar to that used at home. If the MNC tends to have high formalization, specialization, and centralization at its home-based headquarters, these organizational characteristics probably will occur in the firm's international subsidiaries.[43] Japanese and U.S. firms are good examples. As the researchers of the comparative study in Taiwan concluded: "Almost 80 percent of Japanese firms and more than 80 percent of American firms in the sample have been operating in Taiwan for about ten years, but they maintain the traits of their distinct cultural origins even though they have been operating in the same (Taiwanese) environment for such a long time."[44]

These findings also reveal that many enterprises view their international operations as extensions of their domestic operations, thus disproving the widely held belief that convergence occurs between overseas operations and local customs. In other words, there is far less of an "international management melting pot" than many people realize. European countries are finding that as they attempt to unify and do business with each other, differing cultures (languages, religions, and values) are very difficult to overcome. A major challenge for the years ahead will be bringing subsidiary organizational characteristics more into line with local customs and cultures.

Table 9–6
Managers' Influence in U.S. and Japanese Firms in Taiwan

Managers' Work-Related Activity	U.S. Firm Average	Japanese Firm Average
Assigning work to subordinates	4.72	3.96
Disciplining subordinates	4.07	3.82
Controlling subordinates' work (quality and pace)	3.99	3.82
Controlling salary and promotion of subordinates	3.81	3.18
Hiring and placing subordinates	3.94	3.24
Setting the budget for own unit	3.45	3.16
Coordinating with other units	3.68	3.52
Influencing policy related to own work	3.22	2.85
Influencing policy not related to own work	2.29	1.94
Influencing superiors	3.02	3.00

Note: The highest score of means is 5 (very great influence); the lowest score is 1 (very little influence). The *T*-value for all scores is significant at the .01 level.

Source: Adapted from Rhy-song Yeh and Tagi Sagafi-nejad, "Organizational Characteristics of American and Japanese Firms in Taiwan," *National Academy of Management Proceedings* (New Orleans, 1987), p. 114.

The World of International Management—Revisited

In this chapter, a number of different entry strategies and organizational arrangements were discussed. Some of these are fairly standard approaches used by MNCs; others represent hybrid or flexible arrangements. Increasingly, entry modes and organizational structures involve collaborative relationships in which control and oversight are shared. Review the chapter opening World of International Management discussion of ABB's approach to reorganization of its global operations. Then think about the major themes of the chapter, forms of entry and organization structure, and answer the following questions: (1) Which organizational structure described in the chapter does ABB's "customer oriented" structure most closely resemble? (2) How might such a structure help or hinder entry into new markets? (3) Does a matrix or customer-oriented structure lend itself better to forming joint ventures and alliances?

SUMMARY OF KEY POINTS

1. MNCs pursue a range of entry strategies in their international operations. These include wholly owned subsidiaries, mergers and acquisitions, alliances and joint ventures, licensing and franchising, and exporting. In general, the more cooperative forms of entry (alliances, joint ventures, mergers, licensing) are on the rise.
2. A number of different organizational structures are used in international operations. Many MNCs begin by using an export manager or subsidiary to handle overseas business. As the operation grows or the company expands into more markets, the firm often will opt for an international division structure. Further growth may result in adoption of a global structural arrangement, such as a global production division, global area division structure, global functional division, or a mixture of these structures.

3. Although MNCs still use the various structural designs that can be drawn in a hierarchical manner, they recently have begun merging or acquiring other firms or parts of other firms, and the resulting organizational arrangements are quite different from those of the past. The same is true of the many joint ventures now taking place across the world. One change stems from the Japanese concept of keiretsu, which involves the vertical integration and cooperation of a group of companies. Other examples of new MNC organizational arrangements include the emergence of electronic networks, new approaches to organizing for production development, and the more effective use of IT.
4. A variety of factors help to explain differences in the way that international firms operate. Three organizational characteristics that are of particular importance are formalization, specialization, and centralization. These characteristics often vary from country to country, so that Japanese firms will conduct operations differently from U.S. firms, for example. When MNCs set up international subsidiaries, they often use the same organizational techniques they do at home without necessarily adjusting their approach to better match the local conditions.

KEY TERMS

alliance, *310*
centralization, *330*
decentralization, *330*
formalization, *328*
franchise, *313*
global area division, *320*
global functional division, *321*
global product division, *318*
horizontal specialization, *330*
international division structure, *317*
joint venture (JV), *310*
license, *312*
merger/acquisition, *306*
mixed organization structure, *321*
specialization, *329*
transnational network structure, *322*
vertical specialization, *330*
wholly owned subsidiary, *305*

REVIEW AND DISCUSSION QUESTIONS

1. One of the most common entry strategies for MNCs is the joint venture. Why are so many companies opting for this strategy? Would a fully owned subsidiary be a better choice?
2. A small manufacturing firm believes there is a market for handheld tools that are carefully crafted for local markets. After spending two months in Europe, the president of this firm believes that his company can create a popular line of these tools. What type of organization structure would be of most value to this firm in its initial efforts to go international?
3. If the company in question 2 finds a major market for its products in Europe and decides to expand into Asia, would you recommend any change in its organization structure? If yes, what would you suggest? If no, why not?
4. If this same company finds after three years of international effort that it is selling 50 percent of its output overseas, what type of organizational structure would you suggest for the future?
5. In what way do the concepts of formalization, specialization, and centralization have an impact on MNC organization structures? In your answer, use a well-known firm such as IBM or Ford to illustrate the practical expressions of these three characteristics.

INTERNET EXERCISE: ORGANIZING FOR EFFECTIVENESS

Every MNC tries to drive down costs by getting its goods and services to the market in the most efficient way. Good examples include auto firms such as Ford Motor and Volkswagen, which have worldwide operations. In recent years Ford has begun expanding into Europe and VW has begun setting up operations in Latin America. By building cars closer to the market, these companies hope to reduce their costs and be more responsive to local needs. At the same time this strategy requires a great deal of organization and coordination. Visit the websites of both firms and examine the scope of their operations. The Web address for Ford Motor is www.ford.com, and for Volkswagen it is www.vw.com. Then, based on your findings, answer these questions: What type of organizational arrangement(s) do you see the two firms using in coordinating their worldwide operations? Which of the two companies has the more modern arrangement? Do you think this increases that firm's efficiency, or does it hamper the company's efforts to contain costs and be more competitive? Why?

In the International Spotlight

Australia

Australia is the smallest continent but the sixth-largest country in the world. It lies between the Indian and Pacific oceans in the Southern Hemisphere and has a landmass of almost 3 million square miles (around 85 percent the size of the United States). Referred to as being "down under" because it lies entirely within the Southern Hemisphere, it is a dry, thinly populated land. The outback is famous for its bright sunshine, enormous numbers of sheep and cattle, and unusual wildlife, such as kangaroos, koalas, platypuses, and wombats. Over 20 million people live in this former British colony. Although many British customs are retained, Australians have developed their own unique way of life. One of the world's most developed countries, Australia operates under a democratic form of government somewhat similar to that of Great Britain. Gross domestic product was $824.3 billion in 2009.

A large financial services MNC in the United States examined the demographic and economic data of Australia. This MNC concluded that there would be increased demand for financial services in Australia. As a result, the company set up an operation in the capital, Canberra, which is slightly inland from Sydney and Melbourne, the two largest cities.

This financial services firm began in Chicago and now has offices in seven countries. Many of these foreign operations are closely controlled by the Chicago office. The overseas personnel are charged with carefully following instructions from headquarters and implementing centralized decisions. However, the Australian operation will be run differently. Because the country is so large and the population spread along the coast and to Perth in the west, and because of the "free spirit" cultural values of the Aussies, the home office feels compelled to give the manager of Australian operations full control over decision making. This manager will have a small number of senior-level managers brought from the United States, but the rest of the personnel will be hired locally. The office will be given sales and profit goals, but specific implementation of strategy will be left to the manager and his or her key subordinates onsite.

The home office believes that in addition to providing direct banking and credit card services, the Australian operation should seek to gain a strong foothold in insurance and investment services. As the country continues to grow economically, this sector of the industry should increase relatively fast. Moreover, few multinational firms are trying to tap this market in Australia, and those that are doing so are from British Commonwealth countries. The CEO believes that the experience of the people being sent to Australia (the U.S. expatriates) will be particularly helpful in developing this market. He recently noted, "We know that the needs of the Australian market are not as sophisticated or complex as those in the United States, but we also know that they are moving in the same direction as we are. So we intend to tap our experience and knowledge and use it to garner a commanding share of this expanding market."

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Questions

1. What are some current issues facing Australia? What is the climate for doing business in Australia today?
2. What type of organizational structure arrangement is the MNC going to use in setting up its Australian operation?
3. Can this MNC benefit from any of the new organizational arrangements, such as a joint venture, the Japanese concept of keiretsu, or electronic networks?
4. Will this operation be basically centralized or decentralized?

Getting In on the Ground Floor

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The EU currently is developing a strategy that will help member countries beat back the threat of U.S. and Asian competition and develop a strong technological base for new product development. European multinational firms currently are strong in a number of different areas. For example, Germany's Hoechst and BASF and Switzerland's Sandoz and Hoffman-LaRoche are major companies in chemicals and pharmaceutics. Philips of the Netherlands invented compact discs and is dominant in the television market. Many strong European-based MNCs could provide a solid base for the EU to defend itself from outside economic invasion.

Ruehter Laboratories, a high-tech R&D firm located in New Jersey, holds a number of important pharmaceutical patents and would like to expand its operation worldwide. The company is considering buying a small but highly profitable Dutch insulin maker. "This acquisition will help us enter the European market by getting in on the ground floor," noted the president.

Although the Dutch firm is quite small, it has strong R&D prowess and likely will play a major role in biotechnology research during the years ahead. Ruehter has talked to the Dutch firm, and the two have arrived at a mutually acceptable selling price. While waiting for the lawyers to work out the final arrangements, Ruehter intends to reorganize its overall operations so that the home-office management can work more closely with its new Dutch subsidiary. There are two areas that Ruehter intends to address in its reorganization efforts: (1) how the subsidiary will be structurally integrated into the current organization and (2) whether there can be any joint R&D efforts between the two groups.

Questions

1. What type of organization design would you recommend that Ruehter use?
2. If there were joint R&D efforts, would this be a problem?