Chapter 14

The Organization of International Business
Three Minute paper:
Up to this point you have learned many things about various countries (Project included much research)

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

**Three dimensions:**

1. **Vertical differentiation** –
   - Where to locate decision-making responsibilities (Centralized vs. Decentralized)

2. **Horizontal differentiation** –
   - How to divide into sub-units (structure)

3. **Integrating mechanisms** –
   - How to coordinate sub-units
   - Cross-functional teams
   - Pan-regional committees
Control systems are Measurement Systems

- Measure performance of subunits
- Make judgments about how well managers are running those subunits
  - Appropriate? Fair?
    Monkeys know what is “fair” VIDEO
  - Did a co-worker ever get more than you, even though you work harder?
    Did you feel like the monkey?
<table>
<thead>
<tr>
<th>Centralized</th>
<th>Decentralized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitates coordination</td>
<td>Been shown to motivate individuals</td>
</tr>
<tr>
<td>Ensure decisions consistent with organization’s objectives</td>
<td>Greater flexibility</td>
</tr>
<tr>
<td>Gives top-level managers the ability to make change</td>
<td>Can result in better decisions</td>
</tr>
<tr>
<td>Avoids duplication of activities – lower costs</td>
<td>Can increase control</td>
</tr>
<tr>
<td></td>
<td>Duplication of effort – higher costs</td>
</tr>
</tbody>
</table>
**Typical Domestic Structures**

<table>
<thead>
<tr>
<th>Most companies start with NO structure</th>
<th>Entrepreneur run</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small management team</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>As company Grows</th>
<th>Develop formal structure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Focus on value chain</td>
</tr>
<tr>
<td></td>
<td>Cost advantage or Differentiation</td>
</tr>
<tr>
<td></td>
<td>Functional or Product</td>
</tr>
</tbody>
</table>

**Functional Structure**

- Top Management
  - Purchasing
    - Buying Units
      - Department Purchasing
        - Buying Units
  - Manufacturing
    - Plants
  - Marketing
    - Branch Sales Units
  - Finance
    - Accounting Units

**Product Structure**

- Headquarters
  - Division Product Line A
    - Department Purchasing
      - Buying Units
  - Division Product Line B
    - Department Manufacturing
      - Plants
  - Division Product Line C
    - Department Marketing
      - Branch Sales Units
    - Department Finance
      - Accounting Units
Typical **International** Structures
(Horizontal Differentiation)

1. **International Division**
   - Headquarters
   - Domestic Division
     - General Manager
     - Product Line A
   - Domestic Division
     - General Manager
     - Product Line B
   - Domestic Division
     - General Manager
     - Product Line C
   - International Division
     - General Manager
     - Area Line

2. **Worldwide Area**
   - Headquarters
   - Area 1 (Domestic)
   - Area 2 (International)

3. **Worldwide Product**
   - Headquarters
   - Worldwide Product Group or Division A
   - Worldwide Product Group or Division B
   - Worldwide Product Group or Division C
   - Area 1 (Domestic)
   - Area 2 (International)

4. **Matrix**
   - Headquarters
   - Area 1
   - Area 2
   - Area 3

Need to answer 2 questions:
- What is it? (define structure)
- Which type of company can best use it?
International Division

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

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

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

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

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

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**Walmart Sales 2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY09</td>
<td>$401</td>
</tr>
<tr>
<td>FY10</td>
<td>$405</td>
</tr>
<tr>
<td>FY11</td>
<td>$419</td>
</tr>
<tr>
<td>FY12</td>
<td>$444</td>
</tr>
<tr>
<td>FY13</td>
<td>$466</td>
</tr>
</tbody>
</table>
If Walmart were a Country

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

**Worldwide 2013**
- Locations: 10,773
- Employees: 2.2 million
If Walmart were a Country

International Division structure did not work well
- Foreign managers checked in with Bentonville

Moved to Worldwide Area structure (for low-cost advantage)
- Local autonomy in merchandising and operations
Sam’s Club in China

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

FILM
### Worldwide Product Structure

#### What is it? (define structure)
- Separates company by product types
- Each has its own functions

#### Which type of company can best use it?
- Many product categories in company
- Have many operations worldwide

<table>
<thead>
<tr>
<th>International Division</th>
<th>Worldwide Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worldwide Product</td>
<td>Matrix</td>
</tr>
</tbody>
</table>

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[Diagram showing the structure with nodes for Headquarters, Worldwide Product Group or Division A, Worldwide Product Group or Division B, Worldwide Product Group or Division C, Area 1 (Domestic) with Functional Units, Area 2 (International) with Functional Units.]
Matrix Structure

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

Which matches which number below?

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

International

Product

Area

Matrix
Most companies start with: International Structure

As Companies Grow they typically move to: Worldwide Area
Based on Cost advantage or Differentiation

As Competitive Pressures Require Cost Advantage AND Differentiation, then move to: Worldwide Product
Matrix
Match Organization to Strategy

**Global Standardization Strategy**  
(*H Integration/L Responsiveness*)  
• Centralizes operational authority  
• Need for control is high  
• Strong organizational cultures are encouraged  
• *Worldwide product division structure*

**Transnational Strategy**  
(*H Integration/H Responsiveness*)  
• Some decisions centralized, and others are decentralized  
• High need for coordination  
• Local responsiveness AND economies of scale and location economies  
• *Matrix structure*

**International Strategy**  
(*L Integration/L Responsiveness*)  
• Need for control is moderate  
• Moderate need for centralization  
• Low performance ambiguity AND low cost of control  
• *Worldwide product division structure*

**Localization Strategy**  
(*L Integration/H Responsiveness*)  
• Divides the world into autonomous geographic areas  
• Decentralizes operational authority  
• Facilitates local responsiveness  
• *Worldwide area structure*
How Does Organizational Structure Change over Time?

The International Structural Stages Model

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Present *summary* of key portions of your project:
1. Political System
2. Key Industries
3. Business Appointments
4. Business Dress
5. Conversation Topics
6. Gift Giving

*Should take about 5 minutes*
1) Assume that you do substantial business in several European countries and want to establish a European headquarters to coordinate activities. **What factors should you consider in choosing a city for these offices?**

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

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

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