

CHAPTER 14

International Organization Design and Control



Qilai Shen/Newscom

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Define and discuss the nature of international organization design, and identify and describe the initial influence of international business activity on organization design.
2. Identify and describe five advanced forms of international organization design and discuss hybrid global designs.
3. Identify and describe key related issues in global organization design.
4. Explain the general purpose of control and the levels of control in international business.
5. Describe how international firms manage the control function.

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LENOVO SPREADS ITS GLOBAL WINGS

Lenovo was started in Beijing by Chinese entrepreneur Liu Chuanzhi in 1984. The firm dabbled in a variety of high-tech industries before it began to focus on the PC market. Initially Lenovo made computers for other firms, most notably AST Research. In 1990, though, the firm launched its own brand of PC and by 1997 Lenovo was the top-selling PC company in its home country. As Lenovo grew, Liu structured his firm around the traditional functional areas such as operations, marketing, and finance, but also created a separate research and development (R&D) group charged with exploring new technologies and commercializing existing technologies. The heads of each of these divisions worked directly with Liu as a team to make decisions and determine the firm's strategies.

Unfortunately, however, the company was not successful in getting its computers accepted outside of China, and the firm fell further and further behind leading computer firms such as IBM, Dell, Apple, Sony, and Toshiba. One reason for this was the lack of brand recognition. Another was that Lenovo simply did not have many top managers with global experience. Hence, they did not have a deep understanding of foreign markets and how to penetrate those markets nor did they really know how to compete in a global marketplace.

But that began to change in 2005. During the early 2000s IBM, one of the world's most recognized computer companies, was developing a new strategy that emphasized informational technology and business services and concentrated on business clients. At the time IBM was also a major competitor in the PC market in both desktops and laptops (especially with its line of ThinkPad laptops). But IBM managers also felt that PCs were dropping in price so quickly that reasonable profit margins would be difficult to maintain. When the company finally decided to sell its PC operation in 2005, Lenovo was quick to jump on the opportunity and bought IBM's entire PC business for \$1.75 billion. Lenovo was allowed to continue using the IBM name through 2007 but then started to brand all of its PCs with the Lenovo name.

Along with the PC business itself, Lenovo also got another extremely important asset—a team of skilled top managers well-versed in global PC markets. Senior IBM executives were quickly integrated throughout the top management structure and one of them, Stephen Ward, was appointed chief executive officer (CEO) of Lenovo. Liu, meanwhile, moved into the background but remained a director—he felt that Lenovo's best opportunity for the firm to gain international market share would be under the leadership of a seasoned global manager like Ward.

But almost from the start problems began to surface. Ward, for example, was extremely autocratic in how he made decisions and believed that Lenovo should function in a highly centralized, command-and-control fashion. One of his first actions was to

decrease the frequency of top management team meetings; he felt the functional vice presidents needed to spend more time running their own functional areas and less time meeting with him. Unfortunately, this alienated his new Chinese colleagues who assumed that their roles were being diminished because they spent less time with the CEO. Liu, for instance, had relied on a senior leadership team that worked together to make decisions, whereas Ward made most of the major decisions by himself. And at a more general level, the U.S. managers tried to impose a rigid, centralized, and bureaucratic structure throughout the new Lenovo. The Chinese, meanwhile, were highly resistant to these efforts, strongly preferring the more consensus-style structure that they had used previously.

Within a matter of months things came to a head. Among other changes, Ward was pushed out and replaced with William Amelio, a senior executive recruited from Dell Computer's highly successful Asia/Pacific operations. Amelio immediately indicated his intent to try to move Lenovo back toward the traditional Chinese structure. He also thought that the firm could benefit from an infusion of additional perspectives so he began to aggressively recruit new executives from other international high-tech firms such as Dell, Motorola, Samsung, and Toshiba. He also softened the rigid functional structure and tried building more coordination across areas by creating cross-functional teams.

Unfortunately, though, Amelio's efforts at Lenovo yielded only mixed results. On the one hand he led the development of a sophisticated and long-term international strategy that is still being followed today. He also successfully integrated numerous divisions and functions between the old IBM unit and Lenovo. But there were also major problems. For one thing, he never really made any major changes in how decisions were made, retaining much of the decision-making authority himself and continuing the command-and-control approach that had been Ward's downfall. For another, Lenovo began to lose market share. Its new products were not as well received in the marketplace as company directors had hoped, and profits began to drop. Internal conflict also became more significant, with the old-guard IBM executives in one camp, the Chinese executives who grew up in Lenovo from the beginning in a different camp, and the newly recruited executives from other firms in still a third camp.

Finally, in 2010 Liu decided that he had to take action. He pushed Amelio to resign and took control of the firm himself. He then quickly restructured the upper ranks of Lenovo to fall more in line with the traditional Chinese approach. Under Amelio's U.S.-style approach, the CEO had made most of the major decisions and then worked with business unit heads to execute them. Liu, though, re-formed the eight top managers at Lenovo into a close-knit team and then brought them together regularly

to make decisions and formulate plans. After decisions and plans were made by consensus, the team continued to work together to ensure that they were implemented effectively and with buy-in from others throughout the organization. However, he also decided to continue Amelio's push away from functional divisions toward more cross-functional activity; he also increased the prominence of regional activities in different parts of the world.

Today Lenovo is headquartered in Hong Kong but has major operations in Beijing, Singapore, and Morrisville, North Carolina. The firm's products include PCs, workstations, servers, storage devices, and information technology (IT) services. Lenovo has also entered the mobile phone business, citing increased convergence between the PC and handheld wireless technologies. In 2012 Lenovo generated profits of \$273 million on revenues of \$21.6 billion and employed more than 27,000 workers. Right now it's still too soon to know if the changes at Lenovo will improve its fortunes or not. But Liu believes that his new approach, which he calls a "blend of old Chinese thinking and modern global thinking," will soon carry the day.¹ ■

The Lenovo case illustrates one of the most fundamental issues facing any international business—how much authority to retain at the top and how much to delegate to lower levels of the organization. In its earlier days, the firm followed a consensus-oriented approach to authority. But as the firm sought to globalize, U.S. managers brought in to lead the firm installed a more centralized, command-and-control approach. Finally, though, as the firm's top management team again came to be dominated by Chinese executives Lenovo reverted back to its previous consensus-based approach. As we will see in this chapter, this issue is an important component in managing international organization design and control.

In this chapter we describe the various organization designs that international businesses use to help achieve their strategic goals. Because these designs typically evolve along a well-defined path as firms become more international, we first discuss the initial forms of organization design firms use as they begin to internationalize their operations.² We then analyze the more advanced forms of organization design that firms adopt as they broaden their participation in international business to become true multinational corporations (MNCs). Next we discuss several related issues in global organization design. We conclude by describing control, another important management function related to organization design.

The Nature of International Organization Design

Organization design (sometimes called *organization structure*) is the overall pattern of structural components and configurations used to manage the total organization.³ The appropriate design for any given organization may depend on the firm's size, strategy, technology, and environment, as well as the cultures of the countries in which the firm operates. Organization design is also the basic vehicle through which strategy is ultimately implemented and through which the work of the organization is actually accomplished.

A firm cannot function unless its various structural components are appropriately assembled.⁴ Through its design the firm does four things. First, it allocates organizational resources. Second, it assigns tasks to its employees. Third, it informs those employees about the firm's rules, procedures, and expectations about the employees' job performances. Fourth, it collects and transmits information necessary for problem solving, decision making, and effective organizational control.⁵ This last task is particularly important for large MNCs, which must manage sharing vast amounts of information between corporate headquarters and subsidiaries and staff spread worldwide.

An organization's structure is not created and then left alone; organization design is an ongoing process. Indeed, managers change the design of their firms almost continually. One study found that most firms and divisions of large firms make moderate design changes about once a year and one or more major design changes every 4 to 5 years.⁶ These changes often result from changes in a firm's strategy because an important characteristic of a successful firm is its ability to match its strategy with a compatible organization design, as Lenovo has sought to do.⁷ For example, even though Lenovo is only about 30 years old the firm has undergone dozens of major organization design changes as well as hundreds of smaller ones. And clearly, a strategy calling for increased internationalization will have an impact on the firm's organization design.

To see how this begins to happen, we will start by considering a domestic firm that has no international sales. Many entrepreneurs, particularly in larger economies such as those of the United States, Japan, and Germany, start new firms in response to some perceived need in the local market; they give little immediate thought to the international marketplace. Also, many small, domestically oriented firms enter international markets passively through indirect exporting, as discussed in Chapter 12. Because such indirect exporting occurs as a routine part of the firm's domestic business, the firm's organization design need not change at all.

Now assume that the hypothetical firm just described begins to engage in direct exporting on a modest level. Its initial response to international sales and orders is the **corollary approach**, whereby the firm delegates responsibility for processing such orders to individuals within an existing department, such as finance or marketing. Under this approach, the firm continues to use its existing domestic organization design. This approach is typical of a firm that has only a small level of international activity.

As a firm's export sales become more significant, however, its next step usually is to create a separate export department. The **export department** takes responsibility for overseeing international operations, marketing products, processing orders, working with foreign distributors, and arranging financing when necessary. Initially, the head of the export department may report to a senior marketing or finance executive. As exports grow in importance, however, the export department of a small- to medium-size firm may achieve equality on the organization chart with finance, marketing, human resources, and other functional areas.

When selling to foreign customers is not fundamentally different from selling to domestic ones, the export department may get by with knowing only a little about foreign markets. However, as international activities increase, firms often find that an export department no longer serves their needs. Once a firm begins to station employees abroad or establish foreign subsidiaries to produce, distribute, and/or market its products, managerial responsibilities, coordination complexities, and information requirements all swell beyond the export department's capabilities and expertise. Familiarity with foreign markets becomes more important and new methods for organizing may be required.

Firms respond to the challenges of controlling their burgeoning international business by changing their organization design through the creation of an international division that specializes in managing foreign operations. The **international division** allows a firm to concentrate resources and create specialized programs targeted on international business activity while simultaneously keeping that activity segregated from the firm's ongoing domestic activities.

In Practice

- When a firm begins to engage in international business activity it will likely need to change its structure.
- As international activity increases the firm's structure will need to continue to change in tandem with that increased activity.

For further consideration: Do you think that all businesses follow the same progression from corollary approach to export department to international division? Why or why not?

Global Organization Designs

As a firm evolves from being domestically oriented with international operations to becoming a true MNC with global aspirations, it typically abandons the international division approach. In place of that division it usually creates a global organization design to achieve synergies among its far-flung operations and to implement its organizational strategy.⁸ For example, for several years Aetna maintained a separate division for its small-but-growing international operations. When its international revenues more than doubled during a three-year period, however, the firm announced plans to eliminate the international division and integrate Aetna's global initiatives into its existing structure. Executives at the firm indicated that their new structure would make it easier to transfer knowledge and technology between international markets.⁹ Indeed,

the global design adopted by any firm must deal with the need to integrate three types of knowledge to compete effectively internationally:¹⁰

- Area knowledge: Managers must understand the cultural, commercial, social, and economic conditions in each host-country market in which the firm does business.
- Product knowledge: Managers must comprehend such factors as technological trends, customer needs, and competitive forces affecting the goods the firm produces and sells.
- Functional knowledge: Managers must have access to coworkers with expertise in basic business functions such as production, marketing, finance, accounting, human resource management, and IT.

The five most common forms of global organization design are product, area, functional, customer, and matrix. As we will discuss, each form allows the firm to emphasize one type of knowledge, yet perhaps each also makes it more difficult to incorporate the other types of knowledge into the firm's decision-making processes. Accordingly, the global design the MNC chooses will reflect the relative importance of each of the three types of knowledge in the firm's operations, as well as its need for coordination among its units, the source of its firm-specific advantages, and its managerial philosophy about its position in the world economy.¹¹

MNCs typically adopt one of three managerial philosophies that guide their approach to such functions as organization design and marketing. The ethnocentric approach is used by firms that operate internationally the same way they do domestically. The polycentric approach is used by firms that customize their operations for each foreign market they serve. The geocentric approach is used by firms that analyze the needs of their customers worldwide and then adopt standardized operations for all markets they serve. (We discuss these concepts more fully in Chapter 16.)

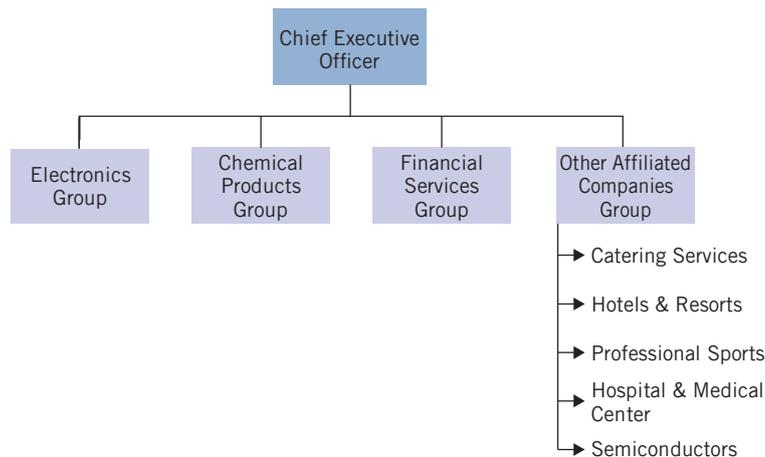
Global Product Design

The most common form of organization design adopted by MNCs is the global product design. The **global product design** assigns worldwide responsibility for specific products or product groups to separate operating divisions within a firm. This design works best when the firm has diverse product lines or when its product lines are sold in diverse markets, thereby rendering the need for coordination between product lines relatively unimportant. If the products are related, the organization of the firm takes on what is often called an M-form design; if the products are unrelated, the design is called an H-form design. The M in M-form stands for *multidivisional*—the various divisions of the firm are usually self-contained operations with interrelated activities. The H in H-form stands for *holding*, as in holding company—the various unrelated businesses function with autonomy and little interdependence.

Samsung Group is the largest *chaebol* in Korea, with almost 80 affiliates, 19 of which are separately listed on the Korea Stock Exchange. Samsung Group uses the H-form global product design, shown in Figure 14.1. The chaebol is organized into four major divisions: the electronics group, the chemical products group, the financial services group, and another group of smaller businesses. Each of these groups has little in common with the others and functions separately from them. Similarly, the other affiliated companies group includes businesses that are also unrelated, including a catering business, a small hotel chain, an amusement park, a professional baseball team, and a small group of hospitals and medical centers.

The global product design provides several potential competitive advantages. First, because a division focuses on a single product or product group, the division managers gain expertise in all aspects of the product or products, better enabling them to compete globally. Second, the global product design facilitates efficiencies in production because managers are free to manufacture the product wherever manufacturing costs are the lowest. It also allows managers to coordinate production at their various facilities, shifting output from factory to factory as global demand or cost conditions fluctuate. Further, because managers have extensive product knowledge, they are better able to incorporate new technologies into their product(s) and respond quickly and flexibly to technological changes that affect their market. The global product design also facilitates global marketing of the product. The firm gains flexibility in introducing, promoting, and distributing each product or product group. Rather than being tied to one marketing plan that encompasses the whole firm, individual product line managers may pursue their own plans. Finally, because the global product design forces managers to think globally, it facilitates geocentric corporate philosophies. This is a useful mind-set as firms work to develop greater international skills internally.¹²

FIGURE 14.1
Samsung Group's Global
Product Design



The global product design also has disadvantages, however. For one, it may encourage expensive duplication because each product group needs its own functional-area skills such as marketing, finance, and information management, and sometimes even its own physical facilities for production, distribution, and R&D. Similarly, each product group must develop its own knowledge about the cultural, legal, and political environments of the various regional and national markets in which it operates. Coordination and corporate learning across product groups also becomes more difficult. If such coordination is an important part of the firm's international strategy, a different global design, such as the global area design, may be preferable. Thus, businesses must carefully consider the relative advantages and disadvantages of using the global product design when deciding the best form of organization design for their particular circumstances.

Global Area Design

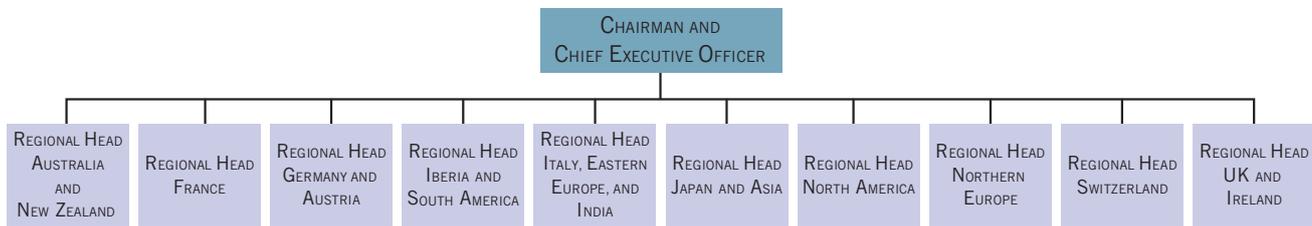
The **global area design** organizes the firm's activities around specific areas or regions of the world. This approach is particularly useful for firms with a polycentric or multidomestic corporate philosophy.¹³ A global area design is most likely to be used by a firm whose products are not readily transferable across regions. "Emerging Opportunities" discusses how many firms doing business in China are using the global area design.

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FIGURE 14.2

Adecco S.A.'s Global Area Design



As shown in Figure 14.2, Adecco S.A. uses the global area design.¹⁴ Adecco, a Swiss firm, is the world's largest temporary employment agency, serving more than 100,000 clients from more than 5,500 offices worldwide. The firm has 10 basic divisions, each representing a different area of the world where Adecco does business. Managers in each area division handle recruiting, distribution, promotion, advertising, client services, and other functions for their particular region.

The global area design is particularly useful for a firm whose strategy is marketing-driven rather than predicated on manufacturing efficiencies or technological innovation or for a firm whose competitive strength lies in the reputation of its brand-name products. Both conditions apply to Adecco. Further, the geographical focus of this design allows a firm to develop expertise about the local market. Area managers can freely adapt the firm's products to meet local needs and can quickly respond to changes in the local marketplace. They also can tailor the product mix they offer within a given area. For example, Adecco managers must adapt their practices to local demand for temporary employment as well as different labor laws and cultural differences regarding employment relationships.

The global area design does have disadvantages, however. By focusing on the needs of the area market, the firm may sacrifice cost efficiencies that might be gained through global production. Diffusion of technology is also slowed because innovations generated in one area division may not be adopted by all the others. Thus, this design may not be suitable for product lines undergoing rapid technological change. Further, the global area design results in duplication of resources because each area division must have its own functional specialists, product experts, and, in many cases, production facilities. And finally, it makes coordination across areas expensive and discourages global product planning.

Global Functional Design

The **global functional design** calls for a firm to create departments or divisions that have worldwide responsibility for the common organizational functions—finance, operations, marketing, R&D, and human resources management. This design is used by MNCs that have relatively narrow or similar product lines. It results in what is often called a U-form organization, where the U stands for *unity*. Lenovo used this design in the early years of its existence. Another example of the global functional design is that used by British Airways, shown in Figure 14.3. This firm is essentially a single-business firm—it provides air transport services—and has company-wide functional operations dedicated to marketing and operations, public affairs, engineering, corporate finance, human resources, and other basic functions.

The global functional design offers several advantages. First of all, the firm can easily transfer expertise within each functional area. For example, Exxon Mobil uses the global functional design, so production skills learned by Exxon Mobil's crews operating in the Gulf of Mexico can be used by its offshore operations in Malaysia's Jerneh field, and new catalytic cracking technology tested at its refinery in Baton Rouge, Louisiana, can be adopted by its refineries in Singapore and Treccate, Italy. Second, managers can maintain highly centralized control over functional operations. For example, the head of Exxon Mobil's refinery division can rapidly adjust the production runs or product mix of refineries to meet changes in worldwide demand, thereby achieving efficient usage of these expensive corporate resources. Finally, the global functional design focuses attention on the key functions of the firm. For example, managers can easily isolate a problem in marketing and distinguish it from activities in other functional areas.

Despite these advantages, this design is inappropriate for many businesses. For one thing, the global functional design is practical only when the firm has relatively few products or customers. For another, coordination between divisions can be a major problem. For example, the manufacturing division and the marketing division may become so differentiated from each other that each may start pursuing its own goals to the detriment of the firm as a whole. Finally, there may also be duplication of resources among managers. For example, the finance, marketing, and operations managers may each hire an expert on Japanese regulation, when a single expert could have served all three functional areas just as effectively.

Because of these problems, the global functional design has limited applicability. It is used by many firms engaged in extracting and processing natural resources, such as the mining and energy industries, because in their case the ability to transfer technical expertise is important. Firms that need to impose uniform standards on all their operations also may adopt this approach. For example, to ensure safety, British Airways standardizes its maintenance and flight procedures regardless of whether a flight originates in London, Hong Kong, or Sydney.

Global Customer Design

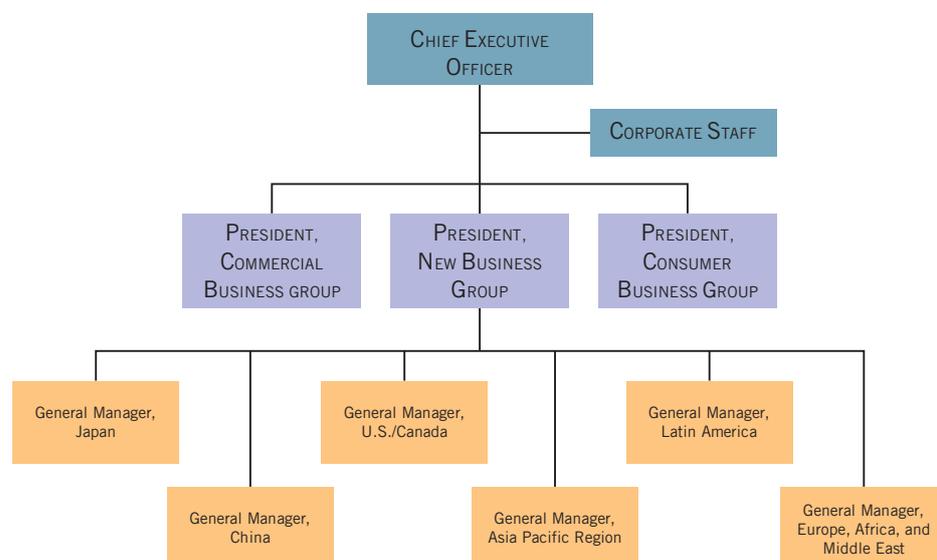
The **global customer design** is used when a firm serves different customers or customer groups, each with specific needs calling for special expertise or attention. For example, Kodak has adopted a global customer design, as is shown in Figure 14.4. Its Commercial Business Group focuses on selling high-quality film products to studios in Hollywood, London, Munich, Hong Kong, Toronto, and other centers for filmed entertainment, as well as film and supplies to the medical community and other commercial customers. Its Consumer Business Group sells both film and digital media to professional and amateur photographers, and its New Business Group targets emerging markets and new technologies of relevance to leading-edge customers around the world.¹⁵

This design is useful when the various customer groups targeted by a firm are so diverse as to require totally distinct marketing approaches. For example, selling four packages of image printing paper to an individual is a completely different task from selling medical imaging supplies to a cancer hospital. The global customer approach allows the firm to meet the specific needs of each customer segment and track how well the firm's products or services are doing among those segments. On the other hand, the global customer design may lead to a significant duplication of resources if each customer group needs its own area and functional specialists. Coordination between the different divisions is also difficult because each is concerned with a fundamentally different market.

Global Matrix Design

The most complex form of international organization design is the global matrix design.¹⁶ A **global matrix design** is the result of superimposing one form of organization design on top of an existing, different form. The resulting design is usually quite fluid, with new matrix dimensions

FIGURE 14.4
Eastman Kodak's Global
Customer Design



VENTURING ABROAD

ALSHAYA'S MATRIX DESIGN

The Kuwait-based business M. H. Alshaya Company does not have great name recognition. But that's exactly how the privately held company owned by the Alshaya family wants to keep it. Now suppose you were visiting Bahrain, Dubai, or Kuwait City and went for a stroll in one of the megamalls that have sprung up in those cities in recent years. During your visit you would see and might shop in such stores as Starbucks, The Cheesecake Factory, Pinkberry, IHOP, American Eagle Outfitters, Victoria's Secret, Pottery Barn, and Williams-Sonoma. Perhaps surprisingly, as it turns out, each of those stores and restaurants throughout the region are owned and managed by none other than M. H. Alshaya Company.

Alshaya has prospered in recent years as a franchisee for dozens of retailer and restaurant chains, concentrating in the Middle East but recently branching out into Europe and Asia as well. Alshaya offers strong regional expertise—scouting locations, negotiating leases, hiring and training employees, and helping modify foods and other products to meet local religious requirements. For example, foods with alcohol-based content must have their ingredients modified, but Alshaya tries to find alternative ingredients that produce the same appearance and taste. Although Alshaya modifies its stores to meet local customs, it also strives to maintain the character and experience that customers enjoy regardless of their locations. So, a Starbucks latte made in Dubai tastes just like a Starbucks latte made in Seattle. And the store and customer “buying experience” are also the same.

The firm currently operates more than 2,400 stores comprising more than 70 brands in 19 countries, and its stores occupy around



8.6 million square feet of retail space. Although much of its operations are based in the Middle East, Alshaya also has stores in Poland, Russia, the Czech Republic, the United Kingdom, and Morocco. The firm also employs approximately 32,000 people of 100 different nationalities.

Alshaya uses a matrix design to manage its diverse and far-flung retail operations. The basic structure is centered on seven business units: fashion and footwear, food, health and beauty, pharmacy, optics, home furnishings, and office supplies. Each of these business units has its own president who reports directly to the CEO. So, for example, the food business unit president oversees Alshaya's Starbucks, Cheesecake Factory, IHOP, Texas Roadhouse, P. F. Chang's, and other food businesses across all of their markets (23 food brands in all).

The matrix “overlay” consists of what Alshaya calls cross-border functional teams and includes human resources, finance, legal, property, supply chain, audit, IT, and customer care specialists. The firm's logic for this arrangement is that it enables Alshaya to rely on common metrics, policies, and reporting systems in a consistent manner. For instance, a common metric to measure retail sales is revenue per square foot of floor space and sales at the same location compared from one time period to the same time period a year later. By using common metrics, then Alshaya can judge the performance of an IHOP restaurant in Kuwait city and compare it to the performance of IHOPs in Warsaw, Dubai, and Doha. All in all, then, Alshaya seems to be performing well, and its matrix design clearly contributes to that performance.¹⁷

The global matrix design has limitations, however. First of all, it is not appropriate for a firm that has few products and that operates in relatively stable markets. Second, it often puts employees in the position of being accountable to more than one manager. For example, at any given time an employee may be a member of his or her functional, area, or product group as well as of two or three product development groups. As a result, the individual may have split loyalties—caught between competing sets of demands and pressures as the area manager to whom the employee reports wants one thing and the product line manager wants another. Similarly, the global matrix design creates a paradox regarding authority. On the one hand, part of the design's purpose is to put decision-making authority in the hands of those managers most able to use it quickly. On the other hand, because reporting relationships are so complex and vague, getting approval for major decisions may actually take longer. And finally, the global matrix design tends to promote compromises, or decisions based on the relative political clout of the managers involved.¹⁸

Hybrid Global Designs

Each global form of international organization design described in this section represents an ideal or pure type. Most firms, however, create a hybrid design that best suits their purposes, as dictated in part by the firms' size, strategy, technology, environment, and culture. Most MNCs are likely to blend elements of all the designs discussed. A firm may use a global product design as its overall approach, but it may have more of a functional orientation or area focus in some of its product groups than in others. In fact, if it were possible to compare the designs used by the world's 500 largest MNCs, no two would look exactly the same. A firm's managers start with the basic prototypes, merge them, throw out bits and pieces, and create new elements unique to their firm as they respond to changes in the organization's strategy and competitive environment. In many ways, Lenovo is using a hybrid design today. Specifically, its current design reflects functional, area, and matrix components.

Figure 14.6 illustrates how Nissan Motor Corporation uses a hybrid design to structure its North American operations. At the top level of the firm Nissan has some managers dedicated

to products (such as the vice president and general manager for the Infiniti division) and others dedicated to functions (such as the vice president and chief financial officer). The marketing function for Nissan automobiles is broken down by product, with specific units responsible for sedans, sports cars, and trucks and SUVs. Both the Infiniti and Nissan divisions also have regional general managers organized by area. In similar fashion all large international firms mix and match forms of organization in different areas and at different levels to create hybrid organization designs that their managers believe best serve the firm's needs.

In Practice

- There is no one single best form of organization design for a global business.
- Although international businesses can use global product, area, functional, customer, or matrix designs, most use a hybrid design including several of these based on their size, strategy, technology, environment, and culture.

For further consideration: Are international businesses in the same industry likely to adopt similar forms of organization design? Why or why not?

Related Issues in Global Organization Design

In addition to the fundamental issues of organization design we have addressed, MNCs also face a number of other related organizational issues that must be carefully managed.

Centralization versus Decentralization

When designing its organization, an MNC must make a particularly critical decision that determines the level of autonomy, power, and control it wants to grant its subsidiaries. Suppose it chooses to decentralize decision making by allowing individual subsidiaries great discretion over strategy, finance, production, and marketing decisions, thereby letting those decisions be made by managers closest to the market. These managers may then focus only on the subsidiary's needs rather than on the firm's overall needs. An MNC can remedy this deficiency by tightly centralizing decision-making authority at corporate headquarters. Decisions made by the corporate staff can then take into account the firm's overall needs. However, these decisions often hinder the ability of subsidiary managers to quickly and effectively respond to changes in their local market conditions. Because both centralization and decentralization offer attractive benefits to the MNC, most firms constantly tinker with a blend of the two to achieve the best outcome in terms of overall strategy.¹⁹

Numerous U.S. businesses have stumbled after setting up shop in China because they try to maintain centralized control from abroad. This has been especially problematic in industries in which responsiveness to market conditions is critical. Both Google and eBay, for instance, have struggled in China because small local rivals have been more nimble in responding to customer preferences. Amazon, meanwhile, recently acquired a major online Chinese retailer called Joyo.com. Amazon founder and CEO Jeff Bezos has vowed to not replicate the mistakes of other firms but instead insists that the local Joyo.com managers will have a great deal of discretion and control over how they responds to peculiarities in the Chinese market.²⁰

Nor are these problems unique to U.S. businesses moving into China. Toyota has long been known for its centralized organization design and the relative lack of autonomy given to country managers outside of Japan. Interestingly, however, in early 2013 Toyota announced major changes in its design intended to push considerable autonomy out to country managers. James Lentz, formerly head of Toyota's sales and marketing in the United States, was promoted and given additional responsibility for vehicle development and manufacturing. Going forward, he and his leadership team will have considerably more authority than in the past to run Toyota's U.S. business as they think best.²¹

Role of Subsidiary Boards of Directors

An MNC typically incorporates each of its subsidiaries in the subsidiary's country of operation. This is done to limit the subsidiary's liability and to allow it to attain legal status as a

local citizen. Most countries require each corporation, including a wholly owned subsidiary of a foreign MNC, to have a board of directors.²² The board is elected by corporate shareholders (which is the MNC), is responsible to those shareholders for the effective management of the subsidiary (which is owned by the MNC), and oversees the activities of top-level managers (who are hired by the MNC). The issue facing most MNCs is whether to view the creation of a subsidiary board of directors as a pro forma exercise and therefore give the board little real authority or to empower the board with substantial decision-making authority.²³

Empowering the subsidiary's board promotes decentralization. Foreign subsidiaries may need the authority to act quickly and decisively without having to always seek the parent's approval. Also, if the MNC decentralizes authority to local levels, an active board provides a clear accountability and reporting link back to corporate headquarters. Some MNCs also have found that appointing prominent local citizens to the subsidiary's board is helpful in conducting business in a foreign country. These members can help the subsidiary integrate itself into the local business community and can be an effective source of information for both parent and subsidiary about local business and political conditions.

For example, prominent local business officials on the board of Apple's Japanese subsidiary were key to the firm's early success in the Japanese market. They enhanced the credibility of Apple's products in a country where corporate connections and status are an important marketing tool, while their appointment demonstrated Apple's long-term commitment to the Japanese market. A subsidiary board also can help monitor the subsidiary's ethical and social responsibility practices. A potential disadvantage of empowering a subsidiary's board is that the subsidiary may become too independent as its board assumes substantial authority and thereby fails to maintain the desired level of accountability to the parent.²⁴

In general a subsidiary board is most useful when the subsidiary has a great deal of autonomy, its own self-contained management structure, and a business identity separate from the parent's. Active subsidiary boards are particularly useful in H-form organizations because a holding company's subsidiaries are typically run independently of one another. For example, Nestlé's U.S. subsidiary, Carnation, meets each of the three criteria noted. Not surprisingly, therefore, Carnation also has an active board of directors. Honda, Matsushita, Hewlett-Packard, and Dow also empower their local boards of directors to make decisions and respond to local conditions.

Coordination in the Global Organization

Finally, as part of creating an effective design for itself, an international firm must address its coordination needs. **Coordination** is the process of linking and integrating functions and activities of different groups, units, or divisions. Coordination needs vary as a function of interdependence among the firm's divisions and functions. In other words, the higher the level of interdependence among divisions and functions, the more coordination is necessary among them.

MNCs can use any of several strategies to achieve and manage their desired level of coordination. The organizational hierarchy itself is one way to manage interdependence and promote coordination. An organization design that clearly specifies all reporting relationships and directions of influence facilitates coordination because each manager knows how to channel communications, decision making, and so on. Rules and procedures also facilitate coordination. For example, a standard operating procedure that requires the reporting of monthly and quarterly revenue, cost, and profit data to headquarters allows corporate staff to coordinate the firm's cash flows and to quickly identify troublesome markets.

MNCs also may adopt somewhat more temporary or ad hoc coordination techniques.²⁵ Using employees in liaison roles is one such technique. Suppose two divisions of an MNC are collaborating on an activity or function. Each may designate a specific manager as its liaison with the other. If any manager in one unit has information or questions that involve the other unit, they are channeled through the liaison to the appropriate person or unit. Toyota, for example, frequently uses this technique for managing relatively small-scale joint efforts.

When the magnitude of the collaboration is significant, task forces may be used for coordination. In such cases each participating unit or division assigns one or more representatives to serve on the task force. The assignment may be either full-time or part-time. Ford and Mazda, for example, used a task force when they collaborated on the design of the Ford Focus. Each

firm designated members of its design, engineering, operations, and finance departments to serve on the task force. Employees of the two firms rotated on and off the task force depending on its needs and on the automobile's stage of development. When the final design was complete and the automobile was put into production, the task force was dissolved.

Many international firms also rely heavily on informal coordination mechanisms. Informal management networks can be especially effective. An **informal management network** is simply a group of managers from different parts of the world who are connected to one another in some way. These connections often form as a result of personal contact, mutual acquaintances, and interaction achieved via travel, training programs, joint meetings, task force experiences, and so on. Informal management networks can be very powerful for short-circuiting bureaucracy that may delay communication and decision making. They also can be effective for getting things done more quickly and more effectively than if normal and routine procedures were always followed.²⁶

In Practice

- MNCs must decide on the appropriate mix of centralization versus decentralization and clearly define the role of subsidiary boards of directors.
- MNCs must also determine the level of coordination needed within their firm.

For further consideration: In what ways are centralization, decentralization, and coordination related to organization design?

The Control Function in International Business

Another important role of organization design is to enable the firm to more effectively manage its control function. **Control** is the process of monitoring ongoing performance and making necessary changes to keep the organization moving toward its performance goals. Control is conceptually similar to a thermostat. A thermostat monitors room temperature and then turns on the cooling or heating system when the actual temperature moves too far from the ideal temperature. When the desired room temperature is reached, the system is turned off until it is needed again.

As illustrated in Figure 14.7, there are three main levels at which control can be implemented and managed in an international business. These three key levels of control are the strategic, organizational, and operations levels. Although each is important on its own merits, the three levels also are important collectively as an organizing framework for managers to use in approaching international control from a comprehensive and integrated perspective.

Strategic Control

Strategic control is intended to monitor both how well an international business formulates strategy and how well it goes about implementing that strategy.²⁷ Strategic control thus focuses on how well the firm defines and maintains its desired strategic alignment with the firm's environment and how effectively the firm is setting and achieving its strategic goals. For example, several years ago Germany's largest automobile manufacturer, Daimler-Benz, bought Chrysler, the third-largest automaker in the United States. At the time this decision seemed logical. For instance, managers believed that the firms could learn from each other, that their existing product lines and organizational strengths complemented one another, and that the combined firm would be able to compete more effectively in global markets with other behemoths such as General Motors, Ford, and Toyota. As it turned out, though, this ended up being a poor strategic decision. The anticipated synergies and efficiencies could never be achieved and so Chrysler was subsequently sold to a group of private investors.

Strategic control also plays a major role in the decisions firms make about foreign-market entry and expansion. This is especially true when the market holds both considerable potential and considerable uncertainty and risk. For example, in the wake of India's overtures for foreign direct investment, many firms are expanding their operations in that country. Hindustan Lever, Unilever's Indian subsidiary, has increased its capacity for soap and detergent manufacturing

of these alliances then becomes an ingredient in the overall strategic control system for each partner's firm. That is, the alliance maintains its own independent control systems, but the results are communicated not only to the managers of the alliance but also to each partner.

Organizational Control

Organizational control focuses on the design of the organization itself. As discussed previously, there are many different forms of organization design that an international firm can use. However, selecting and implementing a particular design does not necessarily end the organization design process. For example, as a firm's environment or strategy changes, managers may need to alter the firm's design to better enable the firm to function in the new circumstances. Adding new product lines, entering a new market, or opening a new factory—all can dictate the need for a change in design.

The most common type of organizational control system is a decentralized one called **responsibility center control**. Using this system, the firm first identifies fundamental responsibility centers within the organization. Strategic business units are frequently defined as responsibility centers, as are geographical regions or product groups. Once the centers are identified, the firm then evaluates each on the basis of how effectively it meets its strategic goals. Thus, a unique control system is developed for each responsibility center. These systems are tailored to meet local accounting and reporting requirements, the local competitive environment, and other circumstances.

Nestlé uses responsibility center control for each of its units, such as Poland Springs, Alcon Labs, and Nestlé-Rowntree (see Map 14.1). These subsidiaries regularly provide financial performance data to corporate headquarters. Managers at Poland Springs, for example, file quarterly reports to Nestlé headquarters in Switzerland so that headquarters can keep abreast of how well its U.S. subsidiary is doing. By keeping each subsidiary defined as a separate and distinct unit and allowing each to use the control system that best fits its own competitive environment, corporate managers in Switzerland can see how each unit is performing within the context of its own market. Each report must contain certain basic information, such as sales and profits, but each also has unique entries that reflect the individual subsidiary and its market.

A firm may prefer to use **generic organizational control** across its entire organization; that is, the control systems used are the same for each unit or operation, and the locus of authority generally resides at the firm's headquarters. Generic organizational control most commonly is used by international firms that pursue similar strategies in each market in which they compete. Because there is no strategic variation between markets, responsibility center control would be inappropriate. The firm is able to apply the same centralized decision making and control standards to the strategic performance of each unit or operation. Moreover, international firms that use the same strategy in every market often have relatively stable and predictable operations; therefore, the organizational control system the firms use also can be relatively stable and straightforward. For example, United Distillers PLC markets its line of bourbon products in the United States, Japan, and throughout Europe. Because the product line is essentially the same in every market and the characteristics of its consumers vary little across markets, the firm uses the same control methods for each market.

A third type of organizational control, which could be used in combination with either responsibility center control or generic organizational control, focuses on the strategic planning process itself rather than on outcomes. **Planning process control** calls for a firm to concentrate its organizational control system on the actual mechanics and processes the firm uses to develop strategic plans. This approach is based on the assumption that if the firm controls its strategies, desired outcomes are more likely to result. Each business unit may then concentrate more on implementing its strategy, rather than worrying as much about the outcomes of that strategy.

In implementing planning process control, whenever a unit fails to meet its goals, the head of that unit meets with the firm's executive committee. The meeting focuses on how the original goals were set and why they were not met. Throughout the meeting the emphasis is on the process that was followed that led to the unsuccessful outcome. The goal is to correct shortcomings in the actual process each unit uses. For example, a unit might have based its unmet sales goals on outdated market research data because there were insufficient funds for new market research. Planning process control would focus not only on correcting the sales shortfall but also on enabling more accurate forecasting in the future.

There are clear and important linkages between strategic control and organizational control in an international firm. When a firm adopts a centralized form of organization design, strategic control is facilitated as a logical and complementary extension of that design. When a firm uses a decentralized design, strategic control is not as logically connected with that design.³¹ A decentralized design gives foreign affiliates more autonomy and freedom while making it more difficult for the parent to maintain adequate control. The challenge facing managers of the parent is to foster the autonomy and freedom that accompany a decentralized design while simultaneously maintaining effective parent control of operating subsidiaries.

For a large international firm organizational control must be addressed at multiple levels. At the highest level, the appropriate form of organization design must be maintained for the entire firm. At a lower level, the appropriate form of organization design must be maintained for each subsidiary or operating unit. The firm also must ensure that these designs mesh with each other.

Operations Control

The third level of control in an international firm is operations control. **Operations control** focuses specifically on operating processes and systems within both the firm and its subsidiaries and operating units. The firm also may need an operations control system for each of its manufacturing facilities, distribution centers, and administrative centers.

Strategic control often involves time periods of several years, while organizational control may deal with periods of a few years or months. Operations control, however, involves relatively short periods of time, dealing with components of performance that need to be assessed on a regular—perhaps daily or even hourly—basis. An operations control system is also likely to be much more specific and focused than strategic and organizational control systems.

For example, a manufacturing firm may monitor daily output, scrappage, and worker productivity within a given manufacturing facility, whereas a retail outlet may measure daily sales. A firm that wants to increase the productivity of its workforce or enhance the quality of its products or services primarily will use operations control to pursue these goals. Operations control usually focuses on the lower levels of a firm, such as first-line managers and operating employees.

PEOPLE, PLANET, AND PROFITS

TOWARD ZERO WASTE?

DuPont was once a major generator of trash, routinely dumping thousands of tons of waste materials in landfills each year. But a few years ago the firm announced its intentions to dramatically reduce the waste it was sending to landfills, with a goal of achieving total recycling wherever possible. To accomplish this goal the firm used a classic control system model. First, it set a control standard for each of its business units and facilities. Next, it developed procedures for monitoring progress toward those standards. And finally, it outlined how it would address deviations.

Take DuPont's Building Innovations unit, for example. This business makes such products as kitchen countertops and Tyvek building wrap. In 2008 the business was sending 81 million pounds of waste to landfills each year. But by January 2013 it was not sending anything to landfills! Among the new practices leading to this milestone are:

- Composting cafeteria waste and using it in landscaping;
- Repairing shipping pallets to extend their use life, and shredding those not repairable for use as animal bedding;
- Recycling countertop waste into landscape stone.



There is even a new term that has been coined to reflect this accomplishment: *zero-landfill status*. DuPont is not alone, of course. General Motors recently reported that 81 of its North American manufacturing plants have achieved zero-landfill status. Moreover, GM also says that it recycles 92 percent of all waste generated by its facilities worldwide. Honda reports that 10 of its 14 North American factories have achieved zero-landfill status. And Toyota claims that its North American operations are at “near-zero”-landfill status.

Outside of the auto industry, Boeing says that a renovated Chinook helicopter plant is at zero-landfill status. And PepsiCo's Frito-Lay facilities are, in the words of the company, approaching zero-landfill status at some of its facilities. For now, though, there are still a few roadblocks and challenges faced by businesses trying to improve their environmental footprint through control procedures. For one thing, some waste products are simply difficult to recycle. DuPont, for example, noted that reducing waste by 80 percent was surprisingly easy, but the last 20 percent posed real challenges. For another, there is no independent resource for verifying zero-landfill status. Regardless, though, critics agree that even if a firm takes small liberties in reporting waste reductions progress is nevertheless being made.³²

Consider Aldi, a German grocery chain. Although people in the United States are used to sprawling, full-line supermarkets that carry everything from apples to zippers, typical European grocery stores tend to be smaller and less service oriented, to carry fewer product lines, and to charge higher prices. Aldi has prospered in Europe through an elaborate operations control system that relies heavily on cost control and efficiency. Aldi stores do not advertise or even list their numbers in telephone directories. Products are not unpacked and put on shelves but instead are sold directly from crates and boxes. The no-frills stores are also usually located in areas in which rents are low. Customers bring their own sacks (or pay Aldi 5¢ each for sacks), bag their own purchases, and rent shopping carts for 25¢ (refunded if the customer returns the cart to the storage rack). Aldi does not accept checks or coupons and provides little customer service, but this austere approach allows the firm to charge rock-bottom prices. Aldi has effectively transferred its control methods to its U.S. operation. The result? Aldi's net profit margins and sales per square foot in the United States are about double the industry norm. With more than 1,000 stores operating in 31 states, Aldi has become one of the country's most profitable grocery chains.

In Practice

- Effective control at the all levels—strategic, organizational, and operations—is critical to organizational effectiveness.
- Poor or weak control can open the door for major strategic mistakes, cost overruns, and lower productivity.

For further consideration: How is control related to issues of centralization versus decentralization?

Managing the Control Function in International Business

Given the obvious complexities in control, it should come as no surprise that international firms must address a variety of issues in managing the control function. To effectively manage control, managers need to understand how to establish control systems, what the essential techniques for control are, why some people resist control, and what managers can do to overcome this resistance.

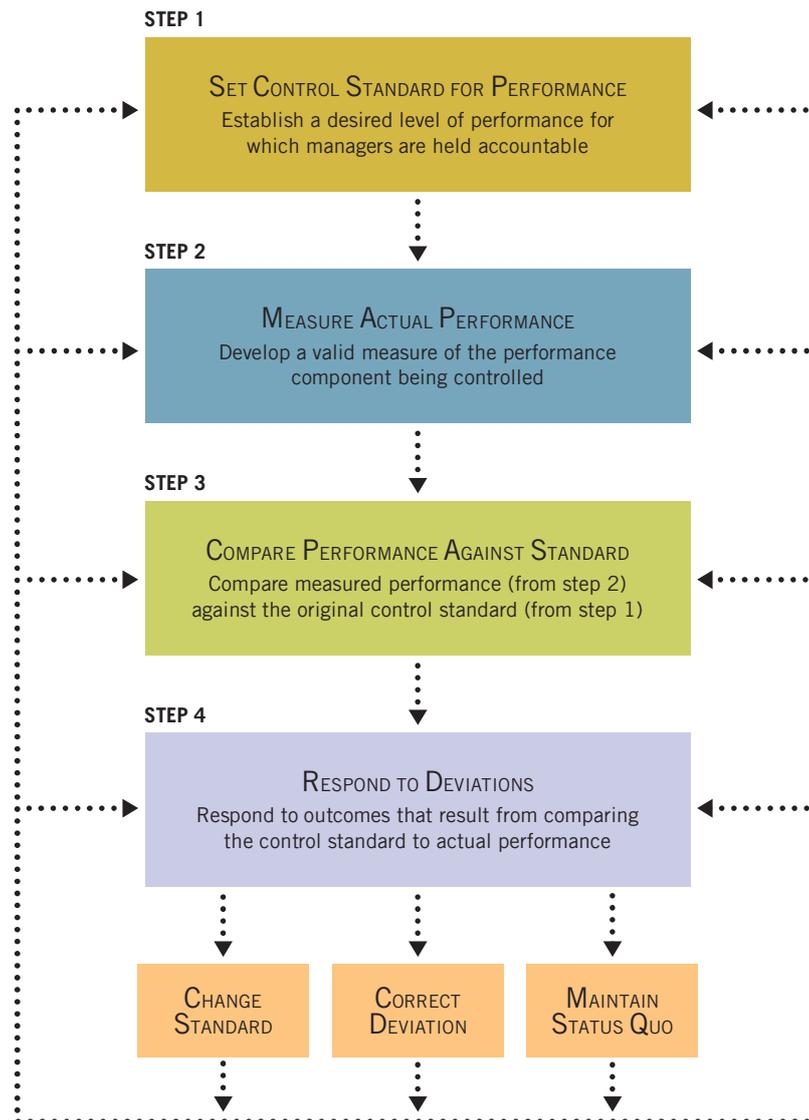
Establishing International Control Systems

As illustrated in Figure 14.8, control systems in international business are established through four basic steps: (1) set control standards for performance, (2) measure actual performance, (3) compare performance against standards, and (4) respond to deviations. There obviously will be differences in specificity, time frame, and sophistication, but these steps are applicable to any area and any level of control. “Bringing the World into Focus” describes how Ford has set goals and implemented a new control system targeting international growth.

SET CONTROL STANDARDS FOR PERFORMANCE The first step in establishing an international control system is to define relevant control standards. A control standard in this context is a target, or a desired level of the performance component the firm is attempting to control. Control standards need to be objective and consistent with the firm's goals. Suppose a firm is about to open its first manufacturing facility in Thailand. It might set the following four control standards for the plant: (1) Productivity and quality in the new plant will exceed the levels in the firm's existing plants. (2) After an initial break-in period, 90 percent of all management positions in the plant will be filled by local managers. (3) The plant will obtain at least 80 percent of its resources from local suppliers. (4) The plant will produce and sell 100,000 units per month.

These control standards help provide a road map for managers involved in opening and running the new plant. Managers can readily see that sales, productivity, and quality are critical and that the firm expects them to hire and buy locally. Where did these standards come from? The firm set them on the basis of its objectives for the new plant, its experience with similar operations, and its overall goals.³³ The second and third goals may have resulted from a conscious strategy of reducing political risk or the parent firm's desire to be a good corporate citizen in each country in which it operates.

FIGURE 14.8
Steps in International
Control



BRINGING THE WORLD INTO FOCUS

FORD AIMS HIGH

During the Global Recession of 2008–2009 the already-shaky Big Three U.S. automakers were especially hard hit. But whereas General Motors and Chrysler relied on government support to survive, Ford managed to stay afloat on its own. One reason for Ford's success was that under the leadership of Alan Mulally the firm was already well along its way to regaining its profitability. Among other things, Mulally has helped Ford reduce its overhead, boost productivity, and overhaul its product line to appeal more to younger auto buyers. For instance, although Ford SUVs still are the firm's largest-selling products, new entrants such as the Focus, Flex, Fusion, and Escape Hybrid have all been big hits.

But one area in which Ford still lags is its international sales. In 2012, for example, Ford derived 50 percent of its revenue from North America but only 6 percent from China, currently the world's largest auto market. But Mulally has made it clear he intends to



change things. Specifically, he announced a new corporate goal of increasing Ford's global sales by 50 percent by the end of 2015. He further specified that the Asia-Pacific region, India, and Africa were expected to account for most of the revenue growth.

Much of the growth is expected to come from sales of small cars. For instance, one of India's hottest-selling cars is the subcompact Ford Figo, recently named the 2011 India Car of the Year.

To make sure the firm stays on track, Mulally also put into place a series of annual growth goals for each region. These annual goals, in turn, will play a major control function. Each year area managers will be largely judged based on their contributions to the overall 50-percent growth goal. Their contributions, in turn, will impact their salary and other rewards for the year. Will this all work? Well, Mulally has so far done a masterful job of rebuilding the iconic Ford brand so few people want to bet against him.³⁴

Essential Control Techniques

Because of the complexities of both the international environment and international firms themselves, those firms rely on a wide variety of different control techniques, as “Bringing the World into Focus” suggests. We do not describe them all but introduce a few of the most important ones.

ACCOUNTING SYSTEMS Accounting is a comprehensive system for collecting, analyzing, and communicating data about a firm’s financial resources. Accounting procedures are heavily regulated and must follow prescribed methods dictated by national governments. Because of these regulations, investors, government agencies, and other organizational stakeholders within a given country can better compare the financial performance of different organizations, have a common understanding of what various kinds of information mean, and place reasonable trust in the accuracy and meaning of that information. International firms face more difficulties in establishing their accounting procedures than do purely domestic firms. International businesses must develop accounting systems to control and monitor the performance of the overall firm and each division, operating unit, or subsidiary. These systems enable managers to keep abreast of the financial performance of every part of the firm.

Problems can arise when the accounting standards or procedures of the countries in which a firm operates are incompatible with each other, as is frequently the case. Each subsidiary must maintain its accounting records in accordance with local procedures and denominate its accounts in the local currency to satisfy local government regulations and meet the needs of local managers. Yet to meet the needs of investors, regulators, and tax collectors in the parent’s home country, the parent needs the local accounting records of each subsidiary translated into the parent’s currency using accounting procedures dictated by the parent’s home country. The parent further must decide whether it will evaluate the performance of its subsidiaries and the subsidiaries’ managers using the local currency, the parent’s home country currency, or some combination of the two.

PROCEDURES Policies, standard operating procedures, rules, and regulations all help managers carry out the control function. For example, a firm may establish a policy that at least 75 percent of the raw materials it buys must be obtained from local suppliers. This policy guides plant managers in making purchasing decisions and allocations. A firm also could have a rule that each employee transferred to a foreign unit must attain basic proficiency in the local language within six months. This rule would serve as an ongoing and easily referenced measure of what is expected.

Firms often alter their procedures in the face of adversity. For example, during the crisis involving the Firestone/Ford recall of defective tires both firms had to deviate from their established procedures to satisfy both their customers and government regulators. Firestone replaced tires at no cost instead of prorating costs based on tread wear. Ford replaced many Firestone tires with more expensive Michelin tires at no extra cost. At times both firms even refused to sell new tires to unaffected customers to maintain a sufficient inventory for the recall program.

PERFORMANCE RATIOS International firms also use various performance ratios to maintain control. A performance ratio is a numerical index of performance that the firm wants to maintain. A common performance ratio used by many firms is inventory turnover. Holding excessive inventory is dysfunctional because the inventory ties up resources that could otherwise be used for different purposes and because the longer materials sit in inventory, the more prone they are to damage and loss. Based on a firm’s unique circumstances, it may decide it does not want anything to sit in inventory for more than 30 days. Turnover rates are likely to differ among different types of retailers and among different countries depending on the amount of floor space, the sophistication of inventory management systems, and the reliability of suppliers. For example, because rents are so high in Tokyo, convenience stores such as 7-Eleven have little room for storage. They must maintain high inventory turnover ratios to remain profitable. Often vendors resupply the 7-Elevens four or five times a day to ensure that goods are available for customers. Sophisticated electronic linkages allow the stores to communicate their inventory needs to suppliers on a real-time basis.

British Airways also uses performance ratios to maintain control of its airline operations. One key ratio for an airline is the percentage of seats filled on its flights. If this ratio falls below a set minimum, the firm looks into alternative ways to generate passenger demand, such as discounts or additional promotional activity. Another ratio of interest to British Airways is the percentage of its flights that arrive and depart on time. If this ratio slips too much, managers try to identify and eliminate the reasons for delays.

Behavioral Aspects of International Control

Regardless of how well formulated and implemented a control system may be, managers must understand that human behavior plays a fundamental role in how well control works. Essential to this understanding is being aware that some people resist control. Also essential is recognizing that resistance can be minimized. Although resistance to control is likely to exist within most cultures, its magnitude will vary across cultures.

RESISTANCE TO CONTROL People in international firms may resist control for various reasons. One potential reason is overcontrol, whereby the firm tries to exert more control over individuals than they think is appropriate.³⁵ By definition control regulates and constrains behavior; most people accept this within what they perceive to be reasonable limits (with the limits being partially determined by the cultural context). However, if attempts to control behavior begin to exceed those perceived limits, people may balk and begin to resist. For example, when Disney first opened Disneyland Paris, it attempted to apply the same grooming standards for its employees there that it uses in the United States, banning beards and mandating trimmed hair. French employees saw this as overcontrol. They complained about the standards, vented their grievances in the media, and occasionally ignored the standards altogether. The resistance grew to the point where Disney eventually backed off and developed standards that were more acceptable to its European employees.

People also may resist control because it may be inappropriately focused; that is, the firm may inadvertently be trying to control the wrong things. For example, if a firm places so much emphasis on lowering costs that quality is compromised and employee morale suffers, employees may become indignant and attempt to circumvent the control system. Whistler Radar, a U.S. firm, encountered this problem in its assembly of radar detectors. Its control system focused on quality control only at the end of the assembly process. When managers discovered that 100 of the firm's 250 employees were doing nothing more than reworking defective units assembled by the other 150, the managers realized that control should have been focused on quality throughout the assembly process.

Finally, people may resist control because control increases their accountability. In the absence of an effective control system, employees may be able to get by with substandard performance because managers do not understand what the employees are doing relative to what they should be doing. For example, if a foreign-branch manager has to submit financial performance data only annually, the manager may not do as good a job on a day-to-day basis as the firm would like. If the firm were to request performance reports more frequently, it could increase the manager's accountability. At the same time, if the firm demands too much reporting, it becomes prone to overcontrol. Thus, it is important to strike a balance between appropriate and acceptable levels of accountability without edging over into overcontrol.

OVERCOMING RESISTANCE TO CONTROL Although there are no guaranteed methods for eliminating resistance to control, there are a few that can help minimize it. The appropriate method, as well as its likely effectiveness, will vary by culture. In many cultures, for instance, one effective way to overcome resistance to control is to promote participation. Involving employees who are going to be affected by control in its planning and implementation will enable them to better understand the goal of the control system, how and why the system works, and how their jobs fit into the system. As a result, the employees may be less prone to resist it.

Another method to reduce resistance that works well in most cultures is to create a control system that has a clear appropriate focus and that creates reasonable accountability without overcontrolling. GlaxoSmithKline, the UK's largest pharmaceutical firm, uses this method. The firm is receptive to allowing scientists to explore ideas and possibilities for new prescription

drugs, thereby motivating those scientists to pursue ideas and creating an atmosphere of creativity and innovation. At the same time Glaxo managers carefully monitor the progress of new product development. If costs start becoming excessive or if development begins to lag too far behind the competition, managers may choose to curtail a given project. Employees see this as a viable strategy because it gives them the opportunity to pursue their scientific interests while simultaneously keeping costs in check.³⁶

A firm also may overcome resistance to control by providing a diagnostic mechanism for addressing unacceptable deviations. Suppose a plant manager reports productivity levels far below those expected by headquarters. Top managers should avoid jumping to a potentially wrong conclusion, such as simply assuming the manager has done a poor job and reprimanding the manager, or worse. Instead they first should learn why the poor performance occurred. For example, it may have resulted from the corporate purchasing manager's having bought inferior materials for the plant.

Again, it is important to account for cultural factors when planning how to deal with resistance to control. People from hierarchical cultures, for example, may be reluctant to actively participate in planning and implementing control because they view such activities as the domain of management.

Finally, behavioral aspects of control can be approached and managed from a cultural perspective. A firm may attempt to replace behaviors resulting from national culture with those more consistent with the firm's corporate culture. Being careful to hire people with values, experiences, work habits, and goals that are consistent with the firm's can go a long way toward this goal. Managers of Japanese-owned automobile factories in the United States, for example, spend thousands of dollars per worker selecting U.S. employees who will be receptive to the Japanese way of working. Further refinements in behavior can be expedited through training and management development programs designed to impart the firm's cultural values and business methods.

In Practice

- Managing the control function in international business requires that managers understand such essential control techniques as accounting systems, procedures, and performance ratios.
- Given that there is a tendency for some people to resist control, managers must know how to overcome resistance to control.

For further consideration: How might resistance to control relate to cross-cultural differences?

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CHAPTER REVIEW

Summary

Organization design is the overall pattern of structural components and configurations used to manage the total organization. The most appropriate design of an organization depends on several factors. Managers also realize that organization design is an evolutionary process. When a firm first begins to operate internationally, it usually must

change its design in one or more ways. Such change may involve following the corollary approach, then establishing an export department, and then creating an international division.

After a firm has established a significant international presence, it will usually develop a global organization design.

The most common approaches to global organization design are the global product design, the global area design, the global functional design, the global customer design, and the global matrix design. Each of these approaches has unique advantages and disadvantages, and one approach may be more suitable for some firms than for others. Indeed, many firms actually use a hybrid global design best suited to their needs.

MNCs also must make other decisions related to organization design. Particularly important are those regarding centralization versus decentralization, the role of subsidiary boards of directors, and which coordination mechanisms to use. Informal management networks are especially powerful mechanisms for coordination.

Control is the process of monitoring and regulating activities of a firm so that a targeted component of performance is achieved or maintained. For an MNC, control must be managed both at the corporate level and within each subsidiary. Most MNCs usually address control at three levels. Strategic control monitors how well an international firm formulates strategy and then goes about trying to implement it. Financial control is an especially important area of strategic control in international business because poor financial control can cripple a firm's ability to compete globally. Organizational control involves the design of the firm. Three basic forms of organizational control are responsibility center control, generic strategic control, and planning process control. Operations control focuses specifically on operating procedures and systems within the firm.

When international firms establish control systems, they first set control standards, then measure actual performance. Next they compare performance against the standards and respond to deviations. Essential control techniques include accounting systems, procedures, and performance ratios. International managers also need to understand behavioral aspects of control, such as why people resist control and how to overcome that resistance. Cultural factors are an important ingredient in addressing behavioral aspects of control.

Review Questions

- 14-1. What are some of the initial impacts of international activity on organization design?
- 14-2. What is the global product design? What are its strengths and weaknesses?
- 14-3. What is the global area design? What are its strengths and weaknesses?
- 14-4. What is the global functional design? What are its strengths and weaknesses?
- 14-5. What is the global customer design? What are its strengths and weaknesses?
- 14-6. What is the global matrix design? What are its strengths and weaknesses?
- 14-7. What are the three levels of control in international business?
- 14-8. Why is financial control so important?
- 14-9. What are the four basic steps in establishing an international control system?

Questions for Discussion

- 14-10. If a new organization starts out with a global perspective, will it necessarily experience any of the initial impacts of international activity on organization design? Why or why not?
- ★ 14-11. Do managers of international firms need to approach organization design differently from their counterparts in domestic firms? Why or why not?
- 14-12. How do the global product, area, functional, and customer approaches to organization design differ? How are they similar?
- ★ 14-13. Why is a global matrix design almost always transitional in nature?
- 14-14. How does management exercise control businesses in your country?
- 14-15. Find examples of businesses that use the three common types of international organizational control. Which of the three is more common?
- ★ 14-16. Which form of control system would you most and least prefer for your own work? Why?
- 14-17. Identify the most common control technique in your country. How would this approach work for the business in an international context?

Building Global Skills

Samsung Group was originally founded as an exporter of dry fish, vegetables and fish. In the 1960s, Samsung Electronics was founded. Its first mobile phone was launched in 1988. By 2005 it was bigger than Sony, and two years later it overtook Motorola. In 2009 Samsung Electronics achieved revenue of

U.S. \$117 billion, making it bigger than Hewlett Packard. By 2012, it became the biggest seller of mobile handsets, beating Nokia.

Against the backdrop of this astonishing growth is a vast organization operating in most global markets. Samsung

consists of a bewildering number of subsidiaries across the electronics sector (with six main subsidiaries), machinery and heavy industry, chemicals, financial services and dozens of other affiliated companies ranging from medical services to hotels and resorts.

Technically speaking, Samsung is unique as far as conglomerates are concerned. New products are launched across the business at a rapid rate. The business aims to target mass markets with its products manufactured at the cheapest possible price. Growth is ensured by the continued investment in start-ups. To date, Samsung has invested U.S. \$1.2 billion in start-ups, retaining nearly 30 percent of the equity of these businesses on an average.

As a small group, investigate the organizational design and control of the conglomerate. What is the central driving force, and how is focus maintained? Is control really exercised from a single board room? Visit the Samsung website and select a comparable U.S. multinational (such as Apple) for comparative purposes.

- 14-18. Investigate and show the overall organizational design of Samsung. What are the likely chains of command?
- 14-19. What do you see as the biggest advantages and disadvantages of Samsung's organization design?
- 14-20. How might the Samsung organizational design and control change over the next decade?

CLOSING CASE

Mining a New Organization Design

Although some observers might assume that Anglo American PLC is a U.S. company, in reality the company has never been American. Instead, Anglo American is based in the United Kingdom but has substantial operations in other parts of the world. The firm is the world's fourth-largest diversified mining company. It has annual revenues of more than \$27 billion, profits of around \$6.5 billion, and more than 100,000 employees

The last 10 years have been a period of change for Anglo American. The major upheavals started in 2007 when Cynthia Carroll was appointed as CEO. The *Times* of London expressed shock at the appointment, referring to mining as "an irredeemably macho industry." Not only was she not a man, Carroll was neither a mining industry veteran nor British (she's an American). When her appointment was announced, Anglo's stock immediately dropped \$0.80 per share. The dice, observed the *Times*, were "probably loaded against her from the start," and to make her job even more difficult, she was soon forced to embark on a \$2-billion efficiency program involving a number of changes guaranteed to rile the old guard of the 91-year-old company. Her whirlwind campaign to cut costs by \$450 million in the first half of 2009 earned her the nickname "Cyclone Cynthia," but many analysts and investors were unimpressed by the savings: Because the entire industry was struggling with high costs during the recession, Carroll's cost-cutting was seen as little more than the logical and obvious strategy to pursue.

Then in June 2009, the Swiss-British mining company Xstrata proposed a merger with Anglo—a move that would create a \$68 billion firm to compete with industry giants like BHP Billiton, Vale, and Rio Tinto. Xstrata said in a statement that it was seeking "a merger of equals that would realize significant value for both companies'

shareholders" and cited "substantial operational synergies" that could amount to savings of \$1 billion a year in combined costs. From Anglo's perspective, there were drawbacks to the deal—its portfolio was worth more than Xstrata's and would be diluted by a merger of the two—but the appeal to Anglo shareholders was clear: Depending on how the new company distributed the cost savings among its investors, Anglo shareholders stood to realize an increase in the market value of their holdings of 26 to 37 percent.

Carroll and the Anglo board quickly rejected Xstrata's offer as "totally unacceptable," and in August, Carroll presented both Anglo's mid-year financial results and its argument for remaining independent. Once again, however, the numbers were underwhelming: Because of the global economy, profits were off 69 percent and revenues 38 percent. Anglo investors wanted to know what management was doing to deliver the kind of returns promised by the Xstrata merger, and an analyst at Barclays Capital, Britain's biggest investment bank, announced that, "in our view, Anglo American has not yet presented a strong argument as to why a merger with Xstrata is not strategically sensible and value-creating for its shareholders." "Frankly," replied Carroll,

I know what it is that we need to do... We have a strategy, we have clear goals, we have tremendous assets... in the most attractive commodities in the world. The opportunities are massive... We're well aware of what Xstrata does, but I'm very confident of what we can do in the future.

In October 2009, Xstrata withdrew its offer in the face of resistance from the Anglo board. Anglo, said a company

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