*Strategic Management*, 9e: Chapter 19 study guide

International and global expansion: Organisation structures

Much of the thinking on globalisation has taken a prescriptive approach. This is probably because the background and foundation lie in the prescriptive routes adopted by international economic analysis and marketing strategy development. However, we also know that some organisational theorists like Mintzberg and Quinn have approached strategy development from an emergent perspective. This is reflected in some of the more recent work on organisational structures for international expansion.

Organisational development leading to a matrix structure

In the early 1970s, research was published by Stopford and Wells suggesting that organisational structures evolved over time as international expansion proceeded: their model is shown in Figure 19.7.[[1]](#endnote-1)7 In the early period, international expansion was handled by a separate international division which was often isolated from the main areas of strategic decision-making. As international sales and business activity continued to grow, the organisational structure changed. The next stage depended on whether the dominant strategic problem was that of:

 organising across different geographic parts of the world, leading to the *area division* structure

 or organising across increasingly diverse product groups, leading to a *worldwide product group* structure

Subsequently in the 1980s, the globalisation/localisation debate explored in the previous section led to a new organisational structure: the *matrix structure* where both area divisions and product divisions were employed. This form of organisational structure was explored in Chapter 12 – the criticisms made then also apply here:

 Dual responsibilities, for example, area and product, are difficult to manage.

 The matrix amplified differences in perspectives and interests by forcing issues through a dual chain of command.

 Management became slower, more costly and possibly even acrimonious.

As a result, some larger companies, such as Unilever, tried and then abandoned the matrix organisation structure. At the end of the 1980s, along came a new organisational solution – the ‘transnational structure’. It should be noted that this was *not* a new organisational form, but rather a way of conducting the business of a large international organisation.

Organisational structure: The transnational solution

In the late 1980s, Bartlett and Ghoshal published the results of a study of nine multinational companies that focused on the way that they organised their business and their ability to be both global and locally responsive. This placed considerable emphasis on the importance of innovation and technology development which was disseminated rapidly through the company.[[2]](#endnote-2)9 The nine companies were grouped into three product areas:

1. *branded packaged goods* – Unilever (UK/Netherlands), Kao (Japan) and Procter & Gamble (USA)

2. *consumer electronics* – Philips (Netherlands), Matsushita (Japan) and General Electric (USA)

3. *telecommunications switching* – ITT (USA), NEC (Japan) and Ericsson (Sweden)

From an extensive study of the strategic requirements of these businesses and the way that each handled its main resources, the two authors identified both existing problems and the methods that these companies had developed to overcome them.

According to Bartlett and Ghoshal, the basic problem with a matrix structure was that it focused on only one variable – the formal structure – that could not capture the complexity of the international strategic task. They defined this task as being to reshape the core decision-making systems and management processes of large MNEs: their administrative systems, their communications channels and their interpersonal relationships. The authors argued that, in the complex and fast-moving environment of global business, it was difficult to use a simple ‘structural fit’ between strategy and structure in the way suggested by Chandler – see Chapter 12. What was needed was to build in *strategic and organisational flexibility*. They therefore developed the transnational form, which would have the following characteristics:

 *Assets and liabilities* – dispersed, interdependent, with different parts of the organisation specialising in different areas. Thus, one country/company might take the lead on one product, another on another product, but all would co-ordinate and co-operate fully.

 *Role of overseas operations* – within an integrated worldwide structure, each country or product group would make a differentiated contribution.

 *Development and diffusion of knowledge* – this would be developed jointly and shared around the world. Chapter 7 explored this concept.

The two authors commented that the transnational form was ‘not an organisational form but a management mentality’. They suggested from their empirical evidence that the locus of decision-making was likely to vary:

 across functions like finance and marketing (some might need to be more centralised than others)

 across different product categories (some might be more global than others)

It was Kogut who later added an important word of caution: new organisational structures take longer to diffuse across MNEs than technological innovations. This has the implication that the transnational form cannot simply be introduced overnight into a company. More recently, the internet has aided such developments and led to so-called ‘netchising’ in which firms create a network of related businesses that are highly integrated on an international scale.[[3]](#endnote-3)12 Such network contacts have also been explored to allow international R&D.

Comment

This research has been highly influential in many large, international companies in terms of their style of operation. Essentially, it is emergent in its approach and emphasises the knowledge and learning aspects of organisational development in a way that is not captured in other models. Yet it was developed from observations on only nine companies. Moreover, its proposals remain essentially vague and without clear guidance on pressing issues like the relative roles of national companies and product groups. The re-organisation at Unilever in the late 1990s – see Case 9.3 – clearly borrows something from the approach but it was not enough to show the company how to balance the individual elements of its far-flung interests.

1. 7 Stopford, J M and Wells, L T (1972) *Managing the Multi-national Enterprise: Organization of the Firm and Ownership of Subsidiaries*, Basic Books, New York. [↑](#endnote-ref-1)
2. 9 Bartlett, C A and Ghoshal, S (1989) *Managing Across Borders: The Transnational Solution*, Century Business, London. [↑](#endnote-ref-2)
3. 12 Morrison, A, Bouquet, C and Beck, J (2004) ‘Netchising: the next global wave?’, *Long Range Planning*, Vol 37, No 1, pp 11– 28. [↑](#endnote-ref-3)