Mncs have more organizational choices

In the long run organizational structure is driven by strategy; in the near term however, strategy is formed by organizational structure, because structure provides a constraint to action. Channon and Jalland (1979) argued that " there is no one optimal organization form which should be adopted by the MNC. Rather the structure should be consistent with strategy in so far as this is possible. Moreover, since strategy itself tends to change over time so might organization structure expect to undergo modifications." issue

One of the most critical concerns for the modern MNCs is how to align the need to be both internationally integrative and locally responsive. To confront the issue of global integration and local responsiveness, western studies (eg. Bartlett, 1986, Bartlett and Ghoshal, 1987, 1989, Doz and Prahalad, 1991, Prahalad, 1975, Prahalad and Doz, 1987) have developed and I-R framework that contains four basic international business strategies – international, global, multidomestic and transnational. These strategies have been widely adopted by modern MNCs to enter and compete in the international environments.

The International Exporter structure is a first step for a company in becoming international. This organizational structure is generally considered to be unsophisticated, unsustainable and transitory in nature. In this form the corporate centre and power base are located in the home country. There are no country-based national subsidiaries, only sales and marketing affiliates. These affiliates depend heavily on their main company for products and transfer of knowledge, and generally heavily patronized by it. The dominant decision flow comes from the centre to the affiliates. Products are developed at home base with very little adaptation. The characteristic of the international exporter is to enable a domestic company to become an international one without the need to change its culture or organization. The home country saw international exporting as the only sensible way to expand, given its lack of international market knowledge and its modest resource base.

The International exporter strategy makes sense if a firm has a valuable core competence that indigenous competitors in foreign markets lack, and if the firm faces relatively weak pressures for local responsiveness and cost reductions. Due to the duplication of manufacturing facilities, firms that pursue an international strategy tend to suffer from high operating costs. This makes the strategy inappropriate in manufacturing industries where cost pressures are high.

Nowadays international exporter strategy may still be useful to describe domestic companies in the early stages of internationalization. This form is transitory in nature and therefore can only be used to characterize a given company for a limited period of time (Segal-Horn & Faulkner, 1999). Examples of international exporter company can be US companies during post-war period.

The multidomestic company has many independent subsidiaries operating in different countries, and expects them to create a local knowledge and competency base. Decision-making and resource-allocation reside with each country subsidiary. Production, marketing and R&D activities tend to be established in each major national market where business is done. Minimum economic size of production units will be relatively small, as each will serve only its local market. A multidomestic strategy makes most sense when there are high pressures for local responsiveness and low cost reductions pressures. In terms of the global integration/local responsiveness matrix, the multidomestic organizational structure represents the extreme case of local responsiveness and localization, and low global integration.

McDonald's is an example of a multidomestic firm. Today it operates over 30, 000 restaurants in 119 countries, employing more than 1. 5 million people all over the world. Adjustment to their cost countries is most obvious in McDonald's Indian restaurants, where they serve vegetarian burgers and other beef free products.

Multidomestic companies are generally unable to realize value from experience curve effects and location economies, sometimes needlessly duplicates facilities and also posses high cost structure. Multidomestic companies were very popular until 1970s, when each country market had high levels of trade barriers and high transport costs. Nowadays, lower market barriers, regional rather than national market boundaries, the needs of scale economies, technology sharing and emerging greater similarities in market tastes have combined to make it relatively obsolete as a typical MNC organizational form. The modern multidomestic is a tighter confederation than its traditional predecessor, it is becoming more centralized corporation with differentiated products and it this case it is difficult to call it multidomestic at all.

The falling of international trade barriers have facilitated the emerging of global firms. The term " global" was first used in Levitt's (1983) article which implied a homogenized global market in terms of consumer needs and preferences. Yet the global refers to more than markets and is used to indicate global industry, global strategy, and global management. A global market refers to one which has broadly similar consumer needs and product preferences. A global industry is one which is a global configuration of value-adding activities within an industry.

The power center, corporate strategy, resource allocation, and knowledge generation and transfer are positioned in the corporate headquarters. In terms of the global integration/local responsiveness matrix, the global company holds the position of extreme global integration and low localization. A global strategy enables firms to reduce costs by economies of scale or by having operations in third world countries. This ability will derive in R&D, manufacture, production, procurement, and inventory cost reduction and strategic advantage. A very high worldwide coordination of the supply chain is required. This is the reason for IT and networking being core to successful global company operations today.

The global organization has the advantage of tight control over specific functions worldwide. It allows a relatively small group of officers to bring out competitive strengths in each function. The functional structure works rather well when companies remain comparatively small and have a few lines of products. However, global type of structure has some serious weaknesses. Coordination of functions is difficult, as this structure separates, for example, marketing from manufacturing. Subsidiaries normally have to report to several different persons at headquarters, resulting in tremendous duplication of effort. Finally, the global structure is unsuitable for multiproduct or geographically dispersed organization as each function may need its own product or regional specialists.

Ernst & Young is an example of a global firm. It has more than 15, 000 consultants in 135 countries, claiming worldwide coverage. It makes efforts to provide a global standard of service and performance in all its worldwide locations. The firm is organized using a strategic business unit approach rather than a geographic approach, suggesting that specialists are recruited from different locations to create the strongest global team possible.

The limitations of the multidomestic and global structures led to the concept of transnational corporation, proposed by Bartlett and Ghoshal (1987, 1988, 1992, 2000), which is characterized by high localization and high global integration at the same time. The ultimate objective is to have access and make effective and efficient use of all the resources the company has at its disposal globally, including both globalized knowledge and tacit localized knowledge.

The transnational strategy allows for the attainment of benefits inherent in both global and multidomestic strategies. Transnational firms aim to realize location and experience curve economies and have centralized control over global production centers. They have a shared vision under a corporate umbrella, but alter operations for local demands. Core competences can develop in any of the firm’s worldwide operations. Flow of skills and product offerings occurs throughout the firm (not only from home firm to foreign subsidiary), therefore global learning exists. The key philosophy of a transnational organization is adaptation to all environmental situations and achieving flexibility by capitalizing on knowledge flows (which take the form of decisions and value-added information) and two-way communication throughout the organization.

Nokia can be an example of transnational company. Despite the fact that their marketing strategy is worldwide and their products generally uniform, they put significant effort into understanding the different needs and tastes of their consumers all over the world.

A potential limitation of the transnational company is the fact that it requires management intensive processes (Ohmae, 2006). The transnational model is still primarily considered a mindset, idea, or ideal rather than an organization structure found on many MNEs, specially in manufacturing (Segal-Horn& Faulkner, 1999).

Nowadays companies are increasingly abandoning rigid structures in an attempt to be more flexible and responsive to the dynamic global environment. It has become increasingly clear that through the forces of globalization, competition and more demanding customers, the structure of many modern companies has become flatter, less hierarchical, more fluid and even virtual. In the modern business world, the networked organizational connections tend to become prevailing organizational form – inter organizational networks, global e-corporation network structures, and transnational corporation network structures.

Networked firms own only core components and use strategic alliances or outsourcing to provide other components. Managers in network structures spend most of their time coordinating and controlling external relations, usually by electronic means. H&M is outsourcing its clothing to a network of 700 suppliers, more than two-thirds of which are based in low-cost Asian countries. Potential advantages of network structures are: reduced overhead costs and increased operating efficiency, operations across great distances, fewer full-time employees and less complex internal systems.

One of the newest organizational structures is team. Team structures extensively use permanent and temporary teams to solve problems, complete special projects, and accomplish day-to-day tasks. Teams can be both horizontal and vertical. Potential advantages of team structures are: elimination of barriers between operating departments, improved morale and enthusiasm for work, increased quality and speed of decision making. In small businesses the team structure can define the entire organization. Larger bureaucratic organizations can benefit from the flexibility of teams as well. Xerox and Motorola are among the companies that actively use teams to perform business tasks.

Boundaryless organizations eliminate internal boundaries among subsystems and external boundaries with the external environment. Virtual form has emerged in the 21st century as a consequence of the globalization forces. Simply it is a combination of team and network structures, with the addition of " temporariness". The virtual form uses strategic alliances, external partnerships, mass collaboration, and dominant exchange strategies to achieve high levels of global integration and local responsiveness through co-operative strategies. On a first approximation, the virtual model resembles the transnational form but uses external partners, global experts, opinion leaders and collaborators instead of corporate subsidiaries. The virtual form tends to focus more on intangible assets rather than tangible/capital intensive assets. This form can be used to model some modern MNCs that do not fit the multidomestic, global, or transnational framework (e. g. Amazon. com and other and dot-com firms).

The creation of an effective organizational structure is one of the most important tasks for top managers of any company. Organizational structures must change to accommodate a firm’s evolving internationalization in response to worldwide competition. . As companies transit from being domestic to international, they must cope with geographically dispersed operations, diverse social, cultural, political, legal, economic environments, and divergent trends in different countries. In order to succeed in a competitive environment, a firm’s structure and control systems must match its strategy.

‘ There is no permanent organization chart for the world. It is of supreme importance to be ready at all times to take advantage of new opportunities”, – said Robert C. Goizueta, former Chairman and CEO of Coca-Cola.

The organizational structures of modern MNCs have become more complex than traditional international, global and multidomestic models in their pure form. Considering the limitations of each of the structures in terms of global competitiveness, most MNCs have re-evaluated their corporate and competitive strategies and restructured in order to simultaneously achieve higher levels of global integration and local responsiveness, i. e. adopting more “ glocal” strategy.

Therefore the traditional models are no longer can be used accurately to characterize most MNCs. However, the traditional models are still useful to characterize extreme/ideal cases in the global integration/local responsiveness matrix and to capture some of the most noticeable characteristics of MNCs during the early stages of internationalization and globalization.