Globalization and organization design

Introduction

Nowadays, Globalization is the indispensable trend of many companies. What motivates them to expand internationally? They do business on global scales in order to expand their markets, increase sales and increase profits. In other side, Organizations have to face a lot of challenges from globalization such as communication, culture, technology and transportation etc. It requires top leaders must be having a global outlook, creating global strategies and structure designs for global advantage. So how managers design the organization for international environment?

Content

What motivates organization to expand internationally?

There are 3 major factors which motivate companies to expand internationally: Economies of scale, Economies of scope, Low-cost production factors.

The economies of scale refer to reduction in the cost per unit by increasing the scale of output. It means producing in the large-volume by new technologies and production methods. The second factor is economies of scope. This factor refers to increasing the number and variety of products and services which company offers. In other hand, company also increase the number and variety of regions, countries, and markets it servers. The third factor is Low-cost production relates to factor of production. Nowadays, a lot of companies in the world, special in USA, usually invest aboard to get the lowest cost of labor, raw materials and other resources.

Those factors show that this is necessary for organization to focus on globalization. In some industries, a company can be successful only by succeeding on global scale.

Stages of International Evolution: Domestic => International => Multinational => Global.

There are a lot of ways to enter foreign markets and each company has their own strategies. However, organizations should grow up step by step, from domestic to global. In the first stage, the Domestic stage, the company has to focus on domestic market which is limited and is their home country. They build basically structure in domestic and deal with foreign sales by an export department. From this stage, the company collects experiences to expand abroad.

The next stage is the international stage. In this stage, the company begins to focus on export more seriously and begins to think “ Multi-domestically”. They enter into multiple countries and have to deal with each country individually because each country has independent competitive issues. So the export department has replaced by an international division and specialists who are hired to handle sales, service, and warehousing abroad.

In stage three, the multinational stage, company expands into some international markets and establishes marketing, manufacturing, or research and development facilities in several foreign countries. And they have business units scattered around the world along with suppliers, manufacturers and distributors. That’s why company obtains a large percentage of revenues from sales outside the home country. We call this stage of development is explosion and structure is worldwide geographic product. Example of multi-national companies is Coca-cola in United States, Sony of Japan, Wal-Mart…

The final stage is the global stage. In this stage, company has inner force and experiences enough to transcend any singer country. They become stateless corporations which have market in the whole world. They have subsidiaries which are interlinked to the point where competitive position in one country significantly influences activities in other countries in whole world. Become global company make their structure to be matrix or transnational model. The example is Nestlé, Unilever. ect. They appear in more than a hundred countries.

How to enter new markets?

Globalization gives organizations a lot of opportunities and it also give them a lot of challenges. One of a lot questions which it gives organization is: How can expand globally? But firstly, we have to answer this question How to enter new markets? And we’ve find out one of the most popular ways which company uses to enter the new markets is through International strategic alliances: licensing, joint ventures, and consortia.

They joint venture with their partners such as customers, suppliers or even competitors to share development and production costs and penetrating new markets…For example, the Joint Venture that Canadian mining company Placer Dome has with Newmont Mining and the result helps lower operating costs at their Nevada gold-mining operations. The subsidiary is Placer Dome Turquoise Ridge Inc. and Placer Dome owns 75% while Newmont owns 25%.

The project expects to mine 300, 000 ounces per year of gold – with gold over $300 an ounce, this deal is worth $90 million annually (Tuesday, January 6, 2004-Torontostar newspaper).

They also can limit risks and take the money from selling licenses when entering new markets by licensing. The example is Saks Fifth Avenue and Barneys New York. Saks has licensed stores in Riyadh and Dubai, Saudi Arabia, and Mexico. Barneys has licensed stores in Japan. Both of them as well as other US- based department stores, are currently making a strong international push in light of weak sales and stiff competition in the United States (O'Connell, " Department Stores: Tough Sell Abroad").

Another typical alliance is that companies become involves in Consortia, groups of independent companies including suppliers, customers, and even competitors. Companies join together to share skills, resources, cost, and access to another's markets.

There is a difference between joint ventures and consortia that in a joint venture, the partners will create a legal corporate entity to carry out the activity – with an agreement that the parent companies have controlling interests.

The difference between alliances and consortia is that consortiums are usually created for a specific short term project, whereas alliances can take place over many years and involve multiple aspects of the relationship whereas consortiums usually are arranged for one specific topic or project.

Global strategy

To survive and develop in International environment, an organization's structure must fit its situation by providing sufficient information processing for coordination and control while focusing employees on specific functions, products, or geographic regions. Managers must choose and decide whether to emphasize global standardization or national responsiveness (globalization strategy or multi-domestic strategy).

The standardization strategy means that product design, manufacturing, and marketing strategy are standardized throughout the world (Kenichi Ohmae, " Managing in a Borderless World"). But the advertising and marketing need to be tailored for different regions, " Think globally, and Market locally". For example, Coca-cola uses that Converging customer needs and preferences and sells the same Coke beverage worldwide. But they also changed a little in their logo and the style of glass bottle. They make their own special characteristics which associate a strong and cross-cultural brand image. In other hand, Globalization strategy can help manufacturing company gains economies of scale efficiencies by standardizing product design and manufacturing or using common suppliers. It introduces products around the world faster, coordinating prices, and eliminating overlapping facilities. For example, Coca-cola gains economies through the competent running of a large-scale franchising system for its bottling operations.

The multi-domestic strategy means that company deals with each national market independently of other national markets and tailors products to individual countries to meet the need of people in different countries. In this strategy, there is decentralization of decision making and local R&D

department takes responsibility for innovations. Some companies have products and services which fit for a multi-domestic strategy, which means taking advantages through differentiation and customization to meet local need. For example, Kraft, which is a Food Company, has recognized that they must tailor their cookies and crackers to different markets. Kraft's Oreo, which is the top-selling cookie in the United States, had poorly result in China until the company re-changed itself to suit local tastes. And now, Kraft's Oreo also is the top seller in China (Julie Jargon, " Kraft Reformulated Oreo, Scores in China," The Wall Street Journal (May 1, 2008), B1, B7).

For entering global market, organization designs should suit to the need both of global standardization and national responsiveness depending on situation, type of product and service. etc.

How to design the structure fit to globalization?

To meet the need of globalization, the top managers must design the organization's structure which is adaptive with the changing environment. Firstly, we should understand the meaning and purpose of organizational structure which formally determines the hierarchy within an organization. There are three most common structural types among global organizations are: Functional structure, Divisional structure and Global matrix structures.

Functional structure groups people together into functional departments such as marketing, finance, R&D, operations etc. Functional structures are the most common organizational model are used domestically.

Divisional Structure is broken down into some sub-types: global product division structure and global geographic division structure.

The product division takes responsibility for global operations in their specific product area in global product structure. It provides a fairly straightforward way to effectively manage a variety of businesses and products around the world. And each division's manager is responsible for planning, organizing, and controlling all functions for the production and distribution of its products for any market in the world. The global product structure is great for standardizing production and sales but it also has some problems such as the product divisions do not work well together, competing instead of cooperating in some countries; and some countries may be ignored by product managers. These problems are solved by Eaton Corporation. They use country coordinators who have a clearly defined role is a superb way

The global geographic structure groups people together based on specific geographic location. Each geographic division reports to the CEO and has full control of functional activities within its geographic area. To apply geographic structure, the organization must be large with mature product lines and stable technologies. This structure suits to organizations that use multi-domestic strategy. This means that products and services will be successful if they are tailored to local needs and cultures. For example, Nestlé uses a geographic structure to focus on the local needs and competition in each country (Carol Matlack, " Nestlé is starting to slim down at last: but can the world's No. 1 food colossus up its profits as it slashes costs?" Business week (October 27, 2003), 56). Other example is IBM; they are creating new regional division for developing markets such as the Middle East, Asia, the Americas, Africa, and Eastern Europe. IBM tailors software and services to meet the needs of these emerging and fast-growing information technology markets (William M. Bulkeley, " Spinning a Global plan," The wall street Journal (February 14, 2008), B1).

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The global matrix structure groups people by both of product division and geographic division. This structure works best when the pressure for decision making balances the interests of both product standardization and geographic localization and when coordination to share resources is important. Global matrix structure is the most complex of the different organizational structures. There are many international firms such as ABB, Colgate, IBM, Nestlé, or Eaton Corp which are using a global hybrid or mixed structure.

Finding the right structure for organization that works best for particular company is very important. If using the wrong structure, organization will have the poor communication, poor product development, poor customer service and a lot of other problems.

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Transnational model

Transnational model is the most advanced kind of international organization. It allows for the attainment of benefits inherent in both global and multi-domestic strategies. The key 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.

Decision making and knowledge generation are distributed among the units of a transnational organization. Transnational firms usually enter into strategic alliances with their customers, suppliers, and other business partners to save time and capital. There are five implementation tactics which used for implementing the transnational model:

Mass customization-synergies through global research and development (e. g., American Express, Time Warner, Frito-Lay, MCI).

Global sourcing and logistics (e. g., Benetton, Citicorp).

Global intelligence and information resources (e. g., Andersen Consulting, McKinsey Consulting).

Global customer service (e. g., American Express).

Global alliances (e. g., British Airways and US Air; KLM and Northwest).

For example, Nestlé CEO Peter Brabeck recently questioned the idea of a so-called global consumer. The company appears to be successfully implementing a transnational strategy by making centralization decisions based partly on whether value-chain activities are upstream or downstream. According to Brabeck, “ The closer we come to the consumer, in branding, pricing, communication, and product adaptation, the more we decentralize. The more we are dealing with production, logistics, and supply-chain management, the more centralized decision making becomes. After all, we want to leverage Nestlé’s size, not be hampered by it” (Wetlaufer, 2001).

Information technology in global organization

Firstly, we should know what is the information system? This is an integrated set of components for collecting, storing, processing, and communicating information. It’s more than just computer program. Information and communications technologies are playing an increasing role in meeting the needed information of organization. Information systems refer to the wider systems of people, data and activities, both computer-based and manual, that effectively gather, process, store and disseminate organization’s information.

There are several types of information systems: Executive Information System (EIS), Management Information System (MIS), Decision support system (DSS) and Transaction Processing System (TPS).

A management information system is used by managerial or mid-level managers. It provides mid-level managers with reports that summarize data and support day-to-day decision making. There are two common types of reports such as Key-Indicator report and Drill-Down report. MIS is subset of the overall internal controls. For example, at Harrah’s casinos, an information reporting system keeps track of detail information on each player and uses quantitative models to predict each customer’s potential long-term value.

An Executive information system is used by highest levels of management. These systems are based on software that can convert large amounts of complex data into pertinent information and provide that information to top managers in a timely fashion. We can use the shortest words to define it as “

EIS requires only the summary of the whole business”. It requires the facts and numbers to be taken and easy access to both internal and external information. For example, Motorola’s Semiconductor Products Sector, based in Austin, Texas, implemented an EIS using online analytical processing software so that more than a thousand senior executives, as well as managers and project analysts in finance, marketing, sales, and accounting departments around the world, could quickly and easily get information about customer buying trends, manufacturing, and so forth, right from their desktop computers, without having to learn complex and arcane search commands (Megan Santosus, “ Motorola’s Semiconductor products Sector’s EIS,” Working Smart column, CIO, section 1 (November 15, 1998), 84).

A Decision support system provides specific benefits to managers at all levels of the organization. This is the software which user can pose a series of what-if questions to test the possible alternatives and based on assumptions used in the software or specified by user. It helps managers choose the alternative that will have the best outcome.

A Transaction processing systems used at operational level of an organization for making transactions through online processing. For example, paying a utility bill from bank account or sales and ordering…

Those are several IT systems which are useful for organizations, especially global organizations. We can recognize that most successful organizations which are knowledge-based organizations are generally those that most effectively apply information technology. IT has enable creation of the network organization structure and also help the top managers design organization which is smaller, decentralized and improved internal and external coordination.

Conclusion

Globalization gives top managers a lot of challenges, especially in designing organization which fits the needs of globalization. Organization must follow the steps form domestic to global. It helps organization have a sound basis to face with the changing and competitive global environment. Besides that, top managers should understand the strength and the weakness of organization or market to find out the right strategy to enter new market and the structure which flexible and effective with changing environment. To do this, IT is the best choice to invest in. It provides the needed information both of internal and external organization and this is the most effective way to communicate both inside and outside company.