

Nestle changing its organizational structure

[Business](#), [Company](#)



10-11 Your firm organized its foreign operations in an international division. With foreign markets growing fast, the firm considers changing its organizational structure. What options does it have? What are the pros and cons of each option? Figure 1 Figure 1 illustrates the relationship between each elements of organizational architecture. Hill et. al (2012) identifies these elements one by one. Organization structure means three points.

First, the formal division of the organization into subunits, such as product divisions, national operations and functions; second, the location of decision making responsibilities within that structure; third, the establishment of integrating mechanism to coordinate the activities of subunits including cross functional team and pan regional committees. Control system is the method to measure the performance of subunits and to judge the managers when running those subunits. Incentives are used to reward appropriate managerial behavior. It is close connected with the performance.

Processes refers to the manner in which decisions are made and work is performed within the organization. Organizational culture refers to the norms and value systems that the employees of an organization share. People here means both the employees of the organization and the strategy used to recruit, compensate and retain those individual and type of people with skills, values and orientations. Organizational structure The organizational structure has three dimensions: vertical differentiation, horizontal differentiation and the integrating mechanisms.

Each dimension will be explained below. Vertical differentiation The vertical differentiation indicated the location of decision making responsibilities within a structure. The vertical differentiation has two types of arguments:

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centralization and decentralization. There are four main arguments for centralization. First, centralization can facilitate coordination. An example might be a company have several different components manufactured in different countries which need coordinated. It can be achieved by centralizing production scheduling by managers.

Second, centralization can help ensure that decisions are consistent with organizational objectives. Third, concentrating power and authority in one individual or a management team can assist the top level managers to bring about needed major organizational changes. Fourth, centralization can avoid the duplication of activities by several subunits with similar activities, which can improve the efficiency. There are also five arguments for decentralization. First, the top level manager may get overburdened, which may result poor decisions. Decentralization can solve this problem.

Second, researches show that people are willing to give more to their jobs when they have a greater degree of individual freedom and control. Third, more rapid response to environmental change with greater flexibility is provided by decentralization. Fourth, decentralization can result in better decisions. This is because in a decentralization structure, the decisions can be made by person with better understanding and more information than managers. Fifth, decentralization can increase control by establish relatively autonomous, self-contained subunits within an organization.

The responsibility of subunit managers are closely connected with the subunit performance. Therefore, centralize some core decisions and decentralize some operating decisions may be worth trying. Horizontal differentiation The horizontal differentiation is concerned with how the firm decides to divide

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itself into subunits. The decision is usually based on the firm's function, type of business and geographical area. Domestic According to Hill et. al (2012), many firms begin with no formal structure and are run by a small group of people.

When the firms grow, the organization is split into functions reflecting the firm's value creation activities because the demand of management is great. Its type of structure is functional structure. Top managers coordinate and control functions, such as purchasing, manufacturing, marketing and finance. Centralized decision is usual in this structure. A typical example of functional structure is the British Airways, as shown in figure 2. Figure 2 With the development of the firm product line, further differentiation may be necessary. A product divisional structure can be used to solve the problem caused by coordination and control.

In a product divisional structure, each division is responsible for a distinct product line, as shown in figure 3. Figure 3 Each division is set up as a self-contained, largely autonomous entity with its own function. The responsibility for operating decisions is usually decentralized to product divisions. The top manager is responsible for the overall strategic development of the firm and for financial control of the various divisions. International The above two structures are based on domestic firms. When the firms expand internationally, they often group all their international activities into an international division.

Both functional and product divisions structure at home may be replicated to the global. Regardless of a firm's domestic structure, its international division tends to be organized on geography. Figure 4 is an example for a <https://assignbuster.com/nestle-changing-its-organizational-structure/>

international division. Figure 4 In the figure, the products can be manufactured by divisions A, B and C, and then export to country1 and 2. However, the production line A, B and C may also build in country 1 and 2. For firm with a functional structure at home, the firm might replicate this structure in every countries it does business.

Similar case might happen for the firms with divisional structure. Although this kind of structure is quite popular, it may raise several problems. It may create conflict and coordination problems between domestic and foreign operations. First, the top manager of this structure may not give as much voice in the organization as the top manager in domestic. Second, lack of coordination between domestic operations and foreign operations may cause isolation. In order to solve these problems, a worldwide product divisional structure and a worldwide area structure is raised and adopted by many firms.

Figure 5 illustrates these two alternative paths of development. Figure 5 The worldwide product divisional structure is often adopted by firms which are reasonably diversified and has domestic structures based on product divisions. Figure 6 is a typical worldwide product divisional structure. This structure helps to realize the location and experience curve economies. It also facilitates the transfer of core competencies. The main problem of this structure is the limitation of voice it gives to area country managers as it makes them subservient to product division managers. Figure 6

The worldwide area structure is suitable for firms with a low degree of diversification and a domestic structure based on functional structure. This structure divided the world into geographic areas and each area's operations

authority and strategic decisions are decentralized (figure 7). This structure facilitates local responsiveness. However, this structure can result in a fragmentation of the organization which makes it difficult to transfer core competencies and skills between areas. This structure is consistent with a localization strategy, but may also make it difficult to realize gains under a global standardization.

Figure 7 Hill et. al (2012) indicates that a worldwide area structure is more appropriate for firm focus on localization strategy while a worldwide product divisional structure is more appropriate for firm focus on global standardization or international strategies. An attempted is made by some firms to use a matrix structure to cope with the conflicting demands of transnational strategy. The responsibility for operation decisions for a product should be shared by the product division and various area of the firm. The global matrix structure allows for differentiation along two dimensions: the product division and geographic area.

In a classic matrix structure, product divisions and geographical areas have equal status for operating decisions. In the reality, the global matrix structure may not work as well as the theory predicts. It may appear as clumsy and bureaucratic. The decision making can be slow and the inflexible organization may not respond quickly to market change or to innovate. The dual-hierarchy structure can also lead to conflict between the areas and the product divisions. To make the matters worse is that it is difficult to ascertain the responsibility in this structure. Integrating mechanism

For an international or a transnational firm, there is greater need for coordination rather than a firm which pursuing a localization strategy.

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However, the different orientation or opinion of subunits will raise different goals, which may become the impediments to coordination. In order to overcome this problem, both formal and informal integrating mechanisms can be used to achieve coordination. As shown in figure 8, the formal mechanisms integrate subunits use methods from direct contact and liaison roles to teams and a matrix structure. The complexity of the formal integrating mechanisms is positive correlated with the need of coordination.

The problem of this solution is that the matrix structure tends to be bureaucratic, inflexible and characterized by conflict. Therefore, flexibility and supporting by the informal integrating mechanisms is necessary. Figure 8 The informal integrating mechanism can be defined as knowledge networks which are supported by the organization culture. Cross-unit cooperation and teamwork are the important content for the culture. The advantage of the network is that it is used as a nonbureaucratic conduit for knowledge flows within a multinational enterprise.

An example to for the structure of the network is shown in figure 9, the manager A, B and E, F are connected indirectly through manager C, D. If one problem is raised by manager A, the manager F or E can know this situation indirectly and provide solution. In order to operate the network successfully, all the managers must share a strong commitment to the same goals and adhere to a common set of norms and values that override differing subunit orientations, which means strong organizational culture is necessary for teamwork and cooperation. Figure 9