

# Role of external governance and its impact to the organization

[Business](#)



Vrushali Paunikar, in his International Business Plan for Starbucks India (2004), states that the Indian economy experienced a rebirth after the liberalization policies in 1991; thirteen years later, India had become one of the most exciting economies in the world with a huge increase in foreign investment and consumers with huge spending power. Keeping in mind the governmental limitations on foreign investments, external governance and its impact on the Starbucks India will be a major factor for its success or downfall. Since sole proprietorships and partnerships are essentially impossible under the Indian law, the locally incorporated company is the answer to many limitations put by the government. Certainly, good corporate governance is the solution-key for the above-stated questions. In the case of Starbucks India, proper corporate governance has to be the identification and correction of inefficiencies in its running. In pursuing this objective, Starbucks' top-level management can not rely on its own internal mechanisms, but they need to look for external instruments such as the market for corporate control. In this regard, external governance becomes very important to be looked at since the role of controls by the external stakeholders over the organization can compound for its overall success in India.

For Starbucks India, external governance can play its healthy role in the forms of debt covenants, external auditing, competition, managerial labor market; while another side of external governance such as media pressure, governmental regulations, and other types of governmental practices may affect the overall organizational policies. Perhaps, organizational disclosure - the most important and positive aspect of the external governance - is

something that lacks its importance in the Indian corporate culture. This phenomenon is generally boosted up particularly in such situations when there is greater competition because of other potentials and players while providing external governance. Therefore, for Starbucks to succeed in India, it entirely depends upon its compliance with the external governance and its factors on the organization as a whole.

Centralized versus Decentralized Organization:

It is essential for any organization to adapt to a centralized or decentralized managerial style. However, it is also a fact that a company can never be totally centralized or totally decentralized. For Starbucks in India, it is very essential to introduce a managerial style that is more centralized than decentralized. Since government policies in India are very strict on foreign direct investors, investing alongside a partner, RPG Enterprises, in this case, will demand uniqueness in its organizational policies for all of its retail stores throughout the country; this leads to the point that high degree of implementation of centralization must prevail over decentralization in the organization. According to my suggested organizational chart for Starbucks' centralized organization, it will have a horizontal organizational chart. Since my recommended retail stores will be placed in various places of large cities such as Mumbai, New Delhi, Chennai, Bangalore; each of these stores will have a Branch Manager having eight subordinate employees under him while working in different shifts.

In the above shown organizational chart for Starbucks in India, Branch Managers of different stores will be responsible to the Regional Manager, who along with other members of a wide and horizontal span of

management - comprising of Manager Audit, Manager HRM, Manager Purchasing, and Manager Promotion - will be responsible to the Co-Chief Executive Officer. Although branch Managers will entertain autonomy while devising their own strategies and policies, overall organization's goals and strategies to attain them will entirely depend upon a centralized organizational and management style. While the mission statement strongly emphasizes upon the maintaining the uncompromising principles whilst growing in the new markets, the above drawn and described organizational chart for Starbucks India in my devised global plan certainly has a very high degree of accordance with the organization's overall successful managerial theories and practices all over the world.