

chapter nine

Entry Strategies and Organizational Structures

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Chapter Objectives

Five Chapter Objectives

1. DESCRIBE how an MNC develops and implements entry strategies and ownership structures
2. EXAMINE major types of entry strategies and organizational structures
3. ANALYZE advantages and disadvantage of each type of organizational structure, including conditions making one preferable to others
4. DESCRIBE recent, nontraditional organization arrangements coming out of mergers, joint ventures, keiretsus, and other new designs including electronic networks and product development structures
5. EXPLAIN how organizational characteristics such as formalization, specialization, and centralization influence how organization is structured and functions

Entry Strategies and Ownership Structures

- Export/import
- Wholly-owned subsidiary
- Mergers/acquisitions
- Alliances/joint ventures
- Licensing
- Franchising

Entry Strategies and Ownership Structures: **Export/Import**

- ❑ Often the only available choices for small and new firms wanting to go international
- ❑ Also permits larger firms to begin international expansion with minimum investment
- ❑ Paperwork can be turned over to export management company or through firm's export department
- ❑ Permits easy access to overseas markets
- ❑ Strategy is usually transitional in nature

Entry Strategies and Ownership Structures: **Wholly Owned Subsidiary**

- Overseas operation is totally owned and controlled by an MNC
- MNC's desire for total control and belief that managerial efficiency is better without outside partners
- Some host countries concerned that MNC will drive out local enterprises
- Home country unions sometimes view foreign subsidiaries as an attempt to “export jobs”
- Today many MNCs opt for merger, alliance, or joint venture than a fully owned subsidiary

Entry Strategies and Ownership Structures: **Mergers and Acquisitions**

- The cross-border purchase or exchange of equity involving two or more companies
- The strategic plan of merged companies often calls for each to contribute a series of strengths toward making the firm a highly competitive operation

Entry Strategies and Ownership Structures: Alliances and Joint Ventures

■ Alliance

- Any type of cooperative relationship among different firms

■ International joint venture (IJV)

- Agreement under which two or more partners from different countries own or control a business
- Nonequity venture
- Equity joint venture

■ Advantages

- Improvement of efficiency
- Access to knowledge
- Political factors
- Collusion or restriction in competition

Strategic Alliance Recommendations

1. Know partner well before alliance is formed.
2. Expect differences in alliance objectives among potential partners headquartered in different countries.
3. Having desired resource profiles does not guarantee other has complementary to firm's resources.
4. Be sensitive to alliance partner needs.
5. After identify best partner, work on developing relationship of trust.

Global Strategic Alliances

Table 9–1
Partial Comparison of Global Strategic Alliances

Strategy	Organization Design	Advantages	Disadvantages	Critical Success Factors	Strategic Human Resources Management
Licensing— manufacturing industries	Technologies	<ul style="list-style-type: none"> Early standardization of design Ability to capitalize on innovations Access to new technologies Ability to control pace of industry evolution 	<ul style="list-style-type: none"> New competitors created Possible eventual exit from industry Possible dependence on licensee 	<ul style="list-style-type: none"> Selection of licensee unlikely to become a competitor Enforcement of patents and licensing agreements 	<ul style="list-style-type: none"> Technical knowledge Training of local managers on-site
Licensing— servicing and franchises	Geography	<ul style="list-style-type: none"> Fast market entry Low capital cost 	<ul style="list-style-type: none"> Quality control Trademark protection 	<ul style="list-style-type: none"> Partners compatible in philosophies/values Tight performance standards 	<ul style="list-style-type: none"> Socialization of franchisees and licensees with core values
Joint ventures— specialization across partners	Function	<ul style="list-style-type: none"> Learning a partner's skills Economies of scale Quasivertical integration Faster learning 	<ul style="list-style-type: none"> Excessive dependence on partner for skills Deterrent to internal investment 	<ul style="list-style-type: none"> Tight and specific performance criteria Entering a venture as "student" rather than "teacher" to learn skills from partner Recognizing that collaboration is another form of competition to learn new skills 	<ul style="list-style-type: none"> Management development and training Negotiation skills Managerial rotation
Joint venture— shared value- adding	Product or line of business	<ul style="list-style-type: none"> Strengths of both partners pooled Faster learning along value chain Fast upgrading of technologic skills 	<ul style="list-style-type: none"> High switching costs Inability to limit partner's access to information 	<ul style="list-style-type: none"> Decentralization and autonomy from corporate parents Long "courtship" period Harmonization of management styles 	<ul style="list-style-type: none"> Team-building Acculturation Flexible skills for implicit communication

Source: From David Lei and John W. Slocum Jr., "Global Strategic Alliances: Payoffs and Pitfalls," *Organizational Dynamics*, Winter 1991, p. 48. Copyright © 1991. Elsevier Reprinted with permission.

Entry Strategies and Ownership Structures:

Licensing

- License is an agreement that allows one party to use an industrial property right in exchange for payment to other party
- Licensee may avoid entry costs by licensing to a firm already there
- Licensor usually is a small firm lacking financial and managerial resources
- Companies spending large share of revenues of R&D are likely to be licensors
- Companies spending very little on R&D are more likely to be licensees

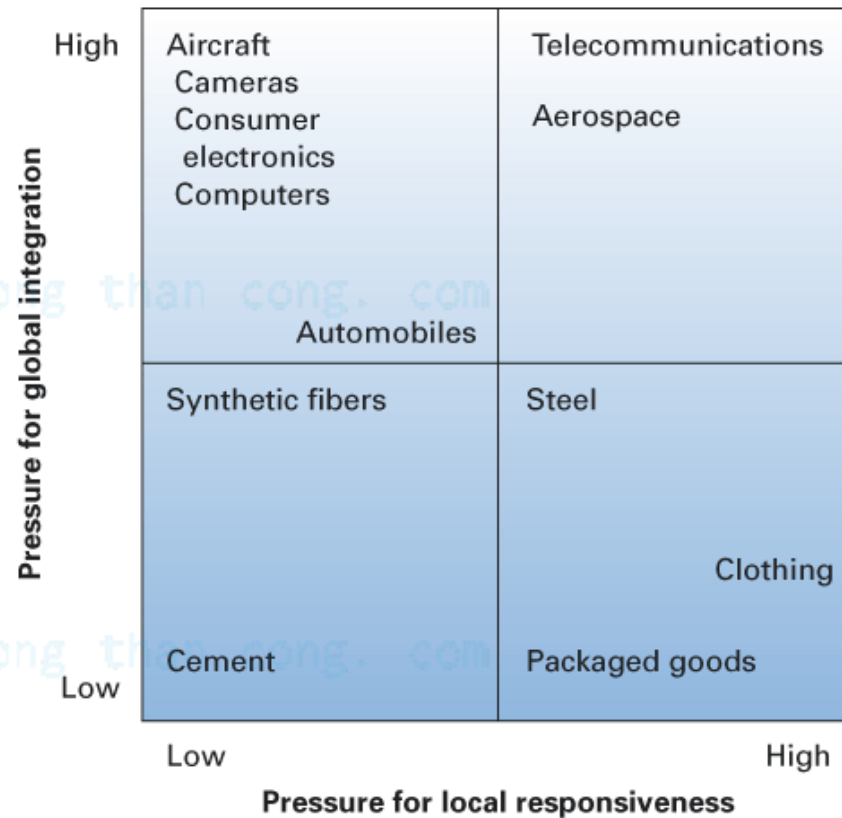
Entry Strategies and Ownership Structures: **Franchising**

- Franchise: one party (the franchisor) permits another (the franchisee) to operate an enterprise using its trademark, logo, product line, and method of operation in return for a fee
- Widely used in fast-food and hotel/motel industries
- With minor adjustments for local market, can result in highly profitable international business.

Organizational Expectations of Internationalization

Figure 9-1

Organizational Expectations of Internationalization



Source: Adapted from Paul W. Beamish, J. Peter Killing, Donald J. LeCraw, and Harold Crookell, *International Management: Text and Cases* (Homewood, IL: Irwin, 1991), p. 99.

Basic Organizational Structures

- Initial Division Structures
 - Export arrangement
 - Common among manufacturing firms, especially those with technologically advanced products
 - On-site manufacturing operations
 - In response to local governments when sales increase
 - Need to reduce transportation cost
 - Subsidiary
 - Common for finance-related businesses or other operations that require onsite presence from start

Basic Organizational Structures



Figure 9-2
Use of Subsidiaries
During the Early Stage
of Internationalization

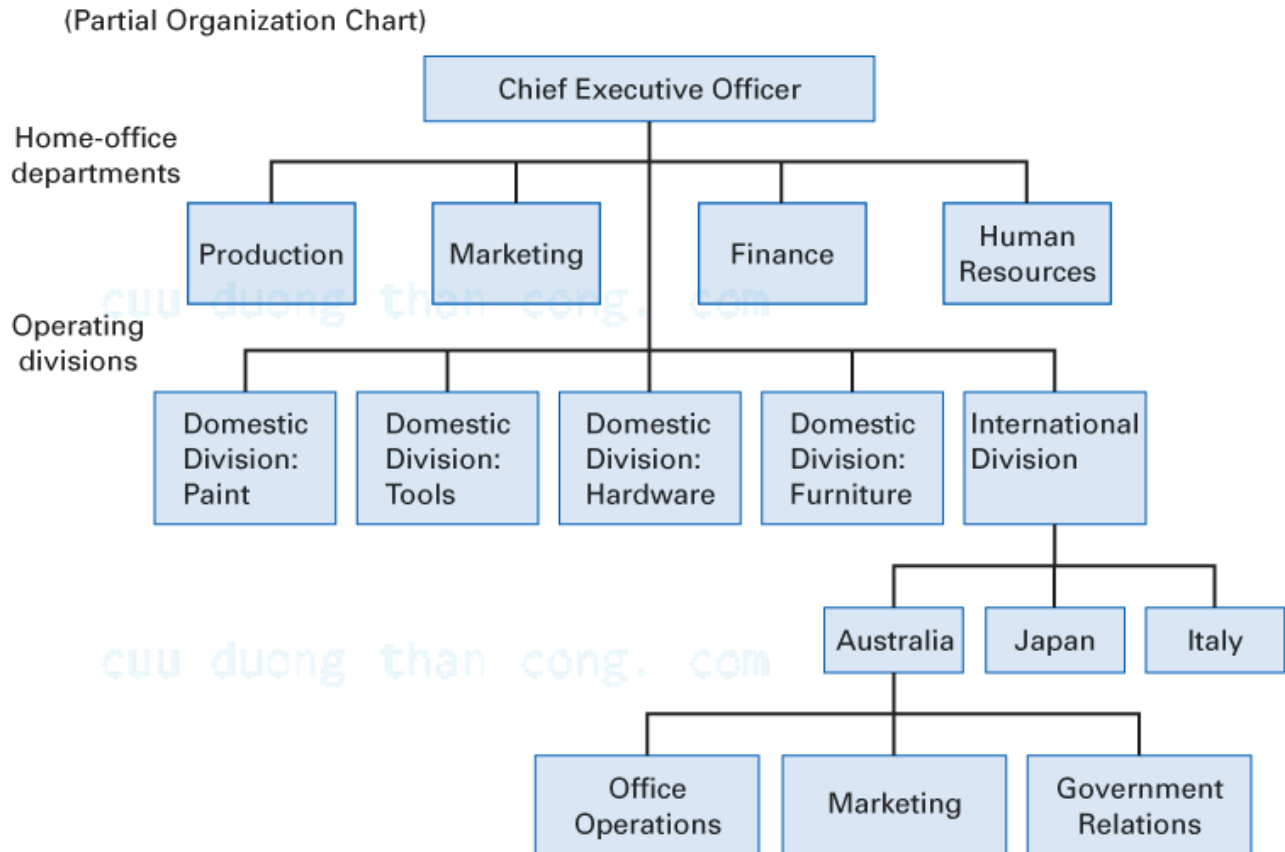
International Division Structure

- Structural arrangement that handles all international operations out of a division created for this purpose
 - Assures international focus receives top management attention
 - Unified approach to international operations
 - Often adopted by firms still in developmental states of international business operations
 - Separates domestic from international managers (not good)
 - May find it difficult to think and act strategically, or to allocate resources on a global basis

International Division Structure

Figure 9-3

An International Division Structure



Global Structural Arrangements

■ Global Product Division

- Structural arrangement in which domestic divisions are given worldwide responsibility for product groups
 - Global product divisions operate as profit centers
 - Helps manage product, technology, customer diversity
 - Ability to cater to local needs
 - Marketing, production and finance coordinated on product-by-product global basis
 - Duplication of facilities and staff personnel within divisions
 - Division manager may pursue currently attractive geographic prospects and neglect others with long-term potential
 - Division managers may spend too much time tapping local rather than international markets

Global Product Division

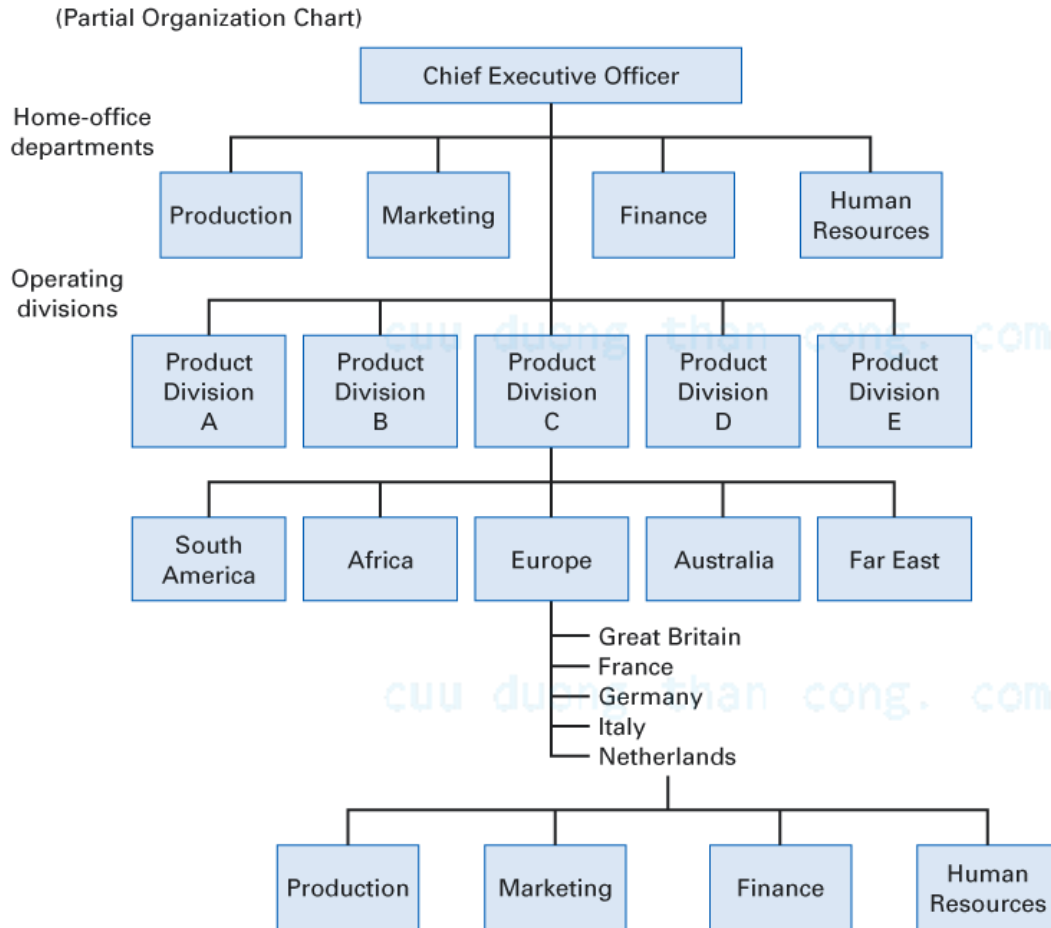


Figure 9-4

A Global Product Division Structure

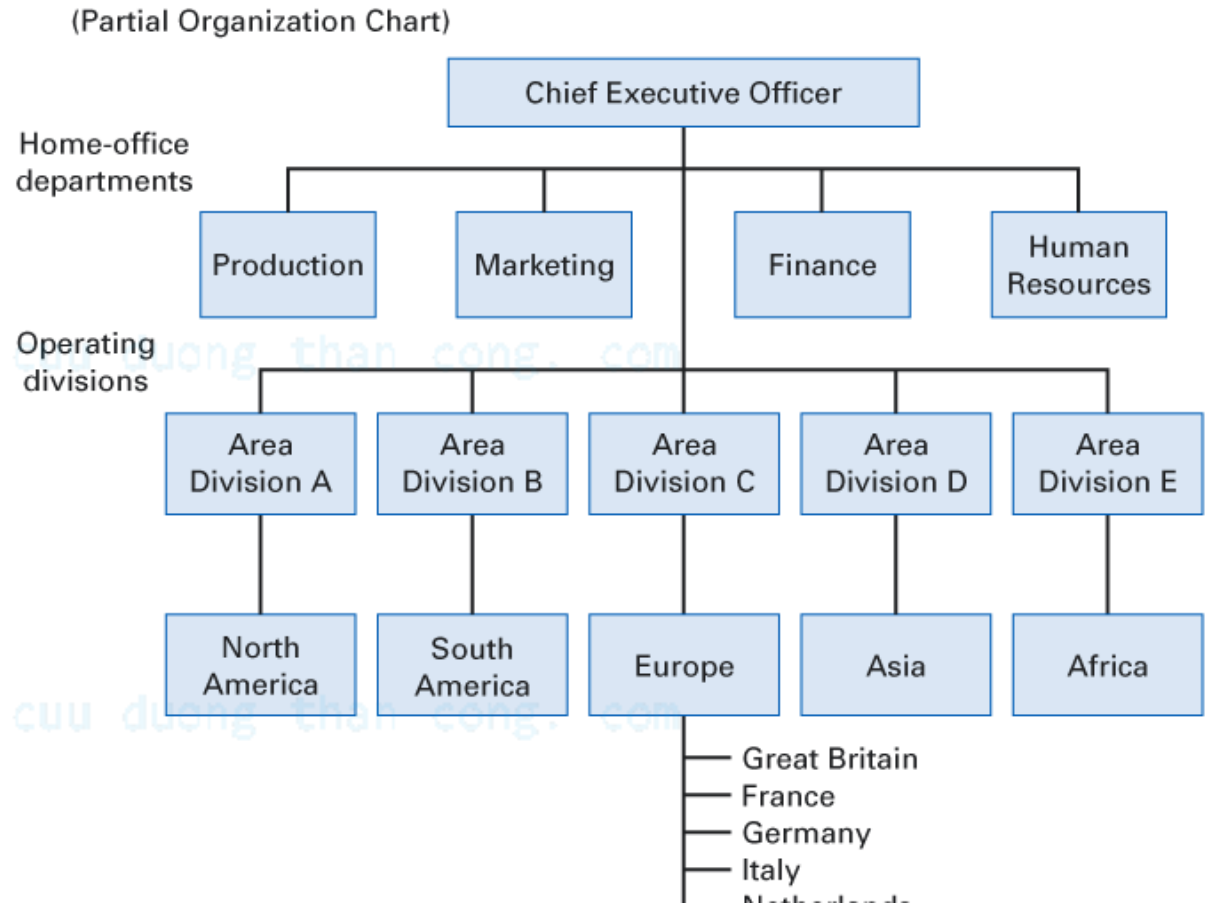
Global Area Division

- Structure under which global operations organized on geographic basis
 - ❑ International operations put on same level as domestic
 - ❑ Global division managers responsible for all business operations in designated geographic area
 - ❑ Often used by firms in mature businesses with narrow product lines
 - ❑ Firm is able to reduce cost per unit and price competitively by manufacturing in a region
 - ❑ Difficult to reconcile a product emphasis with geographic orientation
 - ❑ New R&D efforts often ignored because divisions are selling in mature market

Global Area Division Structure

Figure 9-5

A Global Area Division Structure



Global Functional Division Structure

- Structure that organizes worldwide operations primarily based on function and secondarily on product
 - ❑ Approach not used except by extractive companies such as oil and mining
 - ❑ Favored only by firms needing tight, centralized coordination and control of integrated production processes and firms involved in transporting products and raw materials between geographic areas
 - ❑ Emphasizes functional expertise, centralized control, relatively lean managerial staff
 - ❑ Coordination of manufacturing and marketing often difficult
 - ❑ Managing multiple product lines can be very challenging because of separation of production and marketing into different departments.

Global Functional Division Structure

(Partial Organization Chart)

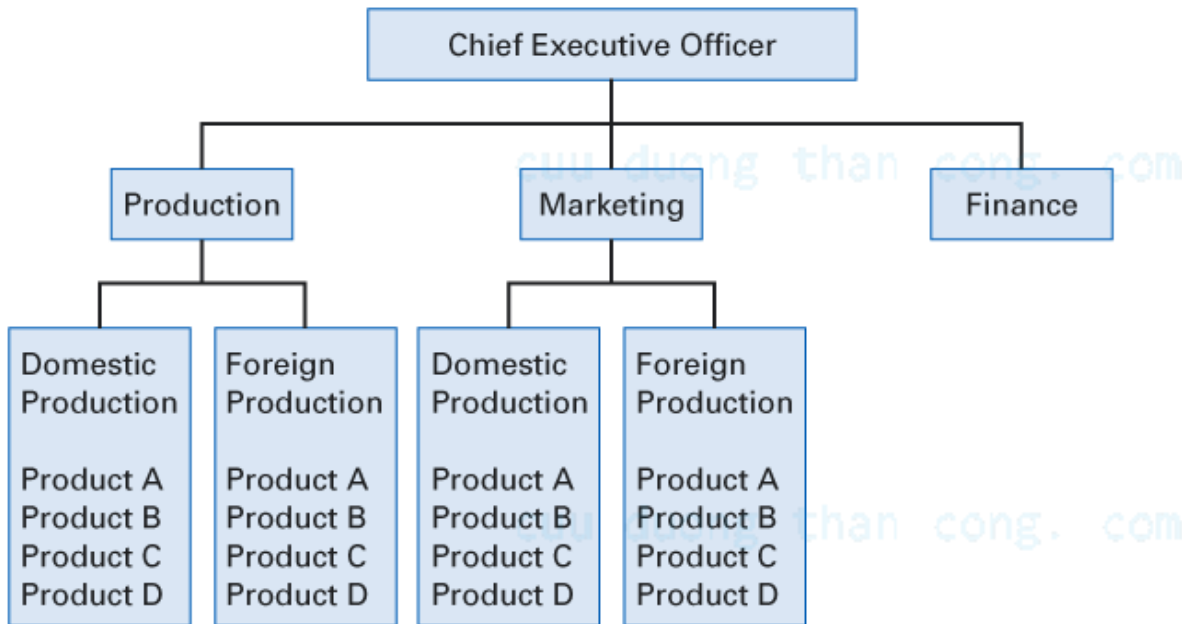


Figure 9-6

A Global Functional Structure

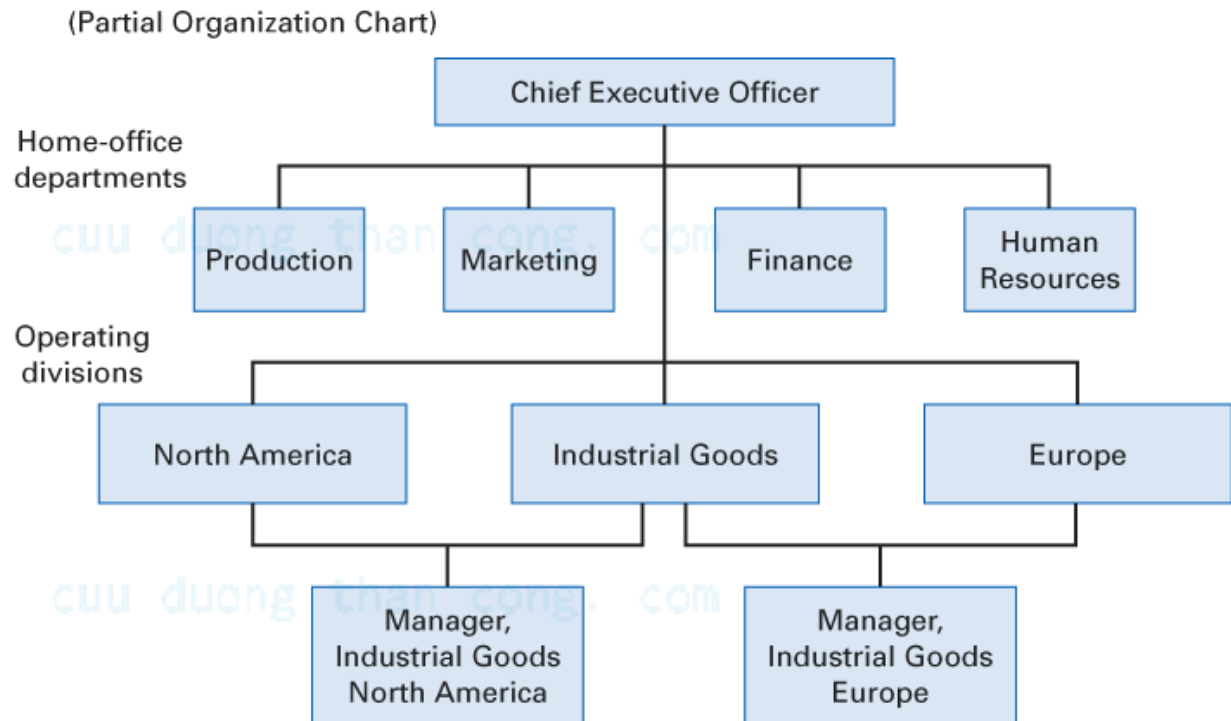
Mixed Organizational Structures

- Structure is a combination of global product, area, or functional arrangements
 - Allows organization to create specific type of design that best meets its needs
 - As matrix design's complexity increases, coordinating personnel and getting everyone to work toward common goals often become difficult
 - Too many groups to their own way

Multinational Matrix Structure

Figure 9-7

A Multinational Matrix Structure



Transnational Network Structures

- Multinational structural arrangement combining elements of function, product, geographic design, while relying on network arrangement to link worldwide subsidiaries
 - At center of transnational network structures are nodes, units charged with coordinating product, functional, and geographic information
 - Different product line units and geographic area units have different structures depending on what is best for their particular operation

Transnational Network Structure

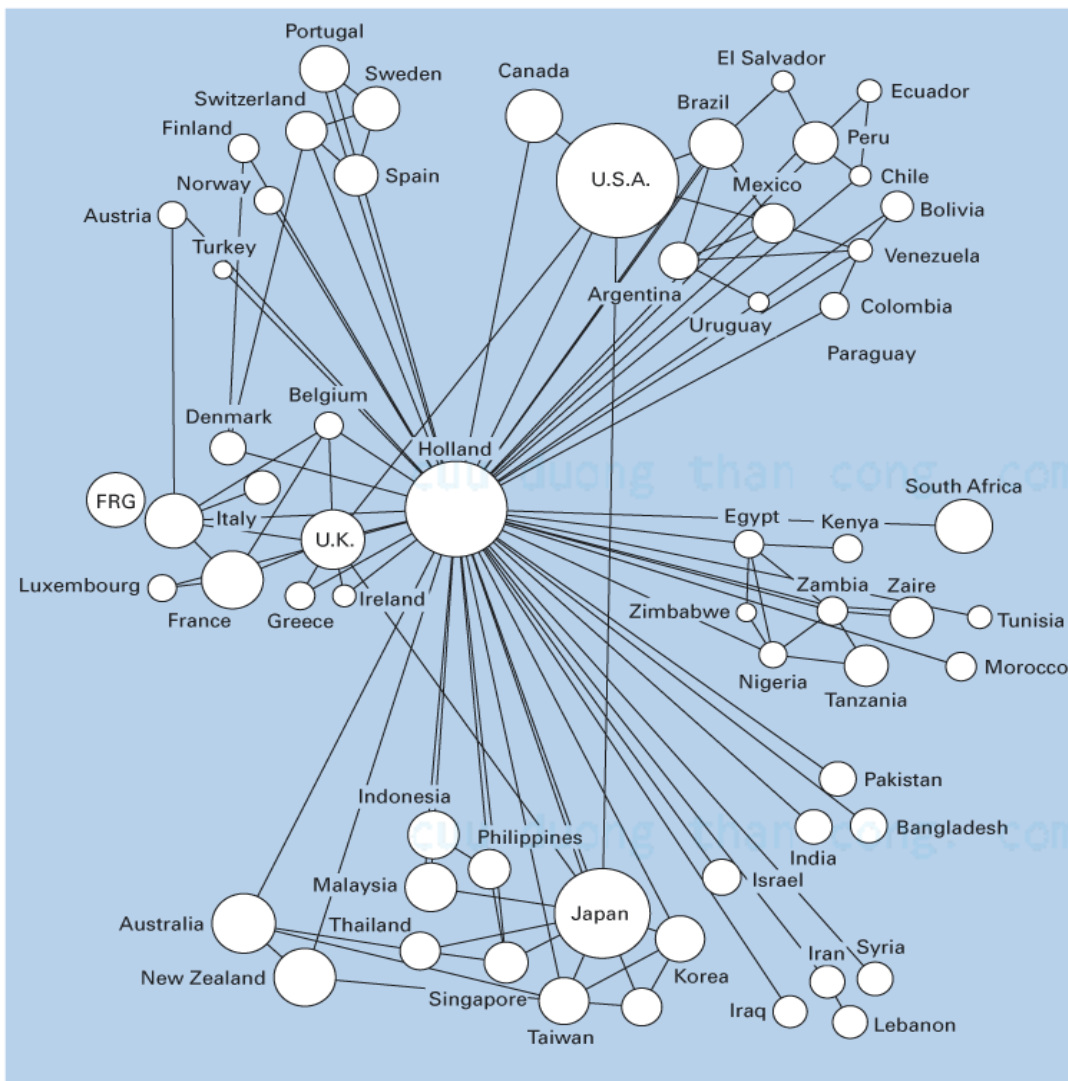


Figure 9-8

The Network Structure of N.V. Philips

Source: See S. Ghoshal and C. A. Bartlett, "The Multinational Corporation as an Interorganizational Network," *Academy of Management Review*, October 1990, pp. 603-625.

Control Mechanisms

Table 9-2

Control Mechanisms Used in Select Multinational Organization Structures

Type of Multinational Structure	Output Control	Bureaucratic Control	Decision-Making Control	Cultural Control
International division structure	Profit control.	Have to follow company policies.	Typically there is some centralization.	Treated like all other divisions.
Global area division	Use of profit centers.	Some policies and procedures are necessary.	Local units are given autonomy.	Local subsidiary culture is often the most important.
Global product division	Unit output for supply; sales volume for sales.	Tight process controls are used to maintain product quality and consistency.	Centralized at the product-division headquarters level.	Possible for some companies, but not always necessary.
Matrix structure	Profit responsibility is shared with product and geographic units.	Not very important.	Balanced between the global area and product units.	Culture must support the shared decision making.
Transnational network structure	Used for supplier units and for some independent profit centers.	Not very important.	Few decisions are centralized at headquarters; most are centralized in the key network nodes.	Organization culture transcends national cultures, supports sharing and learning, and is the most important control mechanism.

Nontraditional Organizational Arrangements

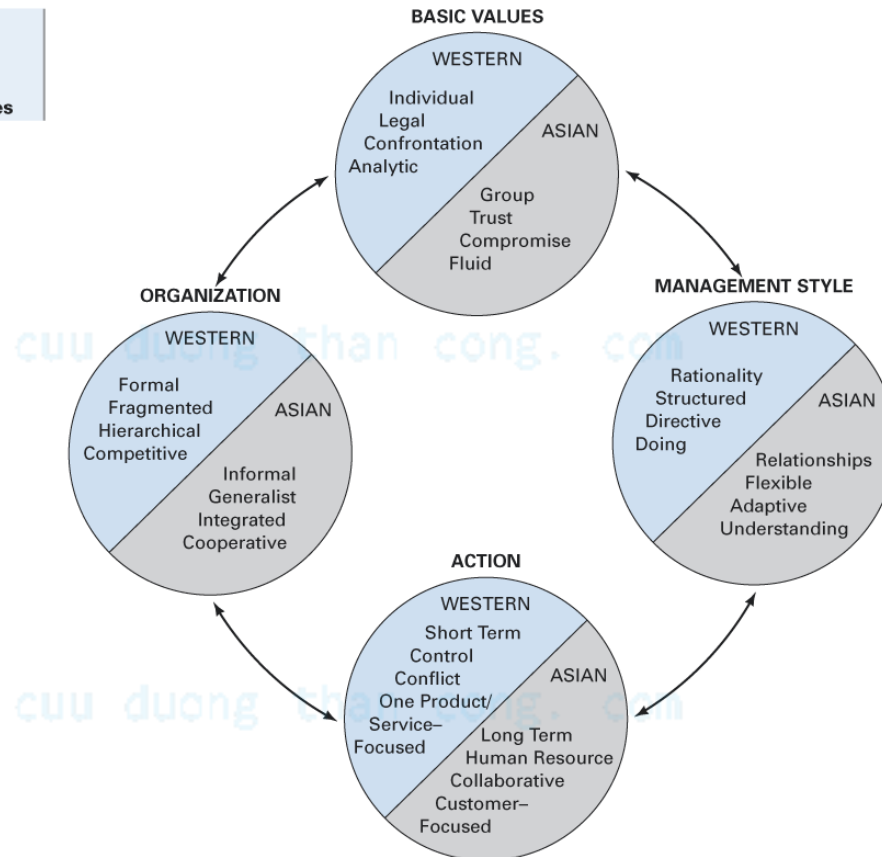
- Organizational arrangements for mergers and acquisitions
- Organizational arrangements from joint ventures and strategic alliances
- Organizational arrangements from Keiretsus

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Asian and Western Management Features

Figure 9-9

A Comparison of Asian and Western Management Features



Source: From Frederic Swierczek and Georges Hirsch, "Joint Ventures in Asia and Multicultural Management," *European Management Journal*, June 1994, p. 203. Reprinted with permission of *European Management Journal*.

Emergency of Electronic Network Form of Organization

- Electronic Freelancers
 - Individuals who work on a project for a company, usually via the Internet, and move on to other employment when the assignment is done
- Temporary companies
 - Serve a particular, short-term purpose and then go on to other assignments
- Outsourcing function (can be delivered on line)
- Electronic network is a version of the matrix design
 - Many of the people in the structure are temporary contingent employees, never see each other and communicate exclusively in an electronic environment

Changing Role of Information Technology in Organizing

Table 9-3

Contrasting Approaches to Using Information Technology: Western and Japanese Views

Key Issue	How Western Firms Address the Matter	How Japanese Firms Address the Matter
How to decide upon the information systems needed by the business.	Develop an IT strategy that aligns with the company's business strategy.	Determine the basic way the firm competes, driven particularly by its operations goals, and use this to determine the IT investment.
How to determine if the investments in IT are worthwhile.	Adapt the capital budgeting process to manage and evaluate the IT investment.	Judge investments based on operational performance improvements.
When trying to improve a business process, how technology fits into management's thinking.	Assume that technology offers the smartest, cheapest way to improve performance.	Identify a performance goal and then select a technology that will help the firm achieve this goal in a way that supports the people doing the work.
How IT users and IT specialists should connect in the organization.	Teach specialists about business goals and develop technically adept, business-savvy chief information officers.	Encourage integration by rotating managers through the IT function and giving IT oversight to executives who oversee other functions.
How systems to improve organization performance can be designed.	Design the most technically elegant system possible and ask employees to adapt to it.	Design a system that makes use of the tacit and explicit knowledge that employees already possess.

Source: Adapted from M. Bensaou and Michael Earl, "The Right Mind-Set for Managing Information Technology," *Harvard Business Review*, September–October 1998, p. 121.

Organizational Characteristics of MNCs

- Formalization: use of defined structures and systems in decision making, communicating, and controlling
- Specialization: Assign individuals to specific, well-defined tasks
- Centralization: Important decisions are made at the top

Managers' Influence in U.S. and Japanese Firms in Taiwan

**Table 9-5
Managers' Influence in U.S. and Japanese Firms in Taiwan**

Managers' Work-Related Activity	U.S. Firm Average	Japanese Firm Average
Assigning work to subordinates	4.72	3.96
Disciplining subordinates	4.07	3.82
Controlling subordinates' work (quality and pace)	3.99	3.82
Controlling salary and promotion of subordinates	3.81	3.18
Hiring and placing subordinates	3.94	3.24
Setting the budget for own unit	3.45	3.16
Coordinating with other units	3.68	3.52
Influencing policy related to own work	3.22	2.85
Influencing policy not related to own work	2.29	1.94
Influencing superiors	3.02	3.00

Note: The highest score of means is 5 (very great influence); the lowest score is 1 (very little influence). The *T*-value for all scores is significant at the .01 level.

Source: Adapted from Rhy-song Yeh and Tagi Sagafi-nejad, "Organizational Characteristics of American and Japanese Firms in Taiwan," *National Academy of Management Proceedings* (New Orleans, 1987), p. 114.

Review and Discuss

1. Why are so many companies opting for the joint venture?
2. Why are keiretsus popular? What benefits do they offer?
3. In what way do formalization, specialization, and centralization have an impact on MNC organization structures?