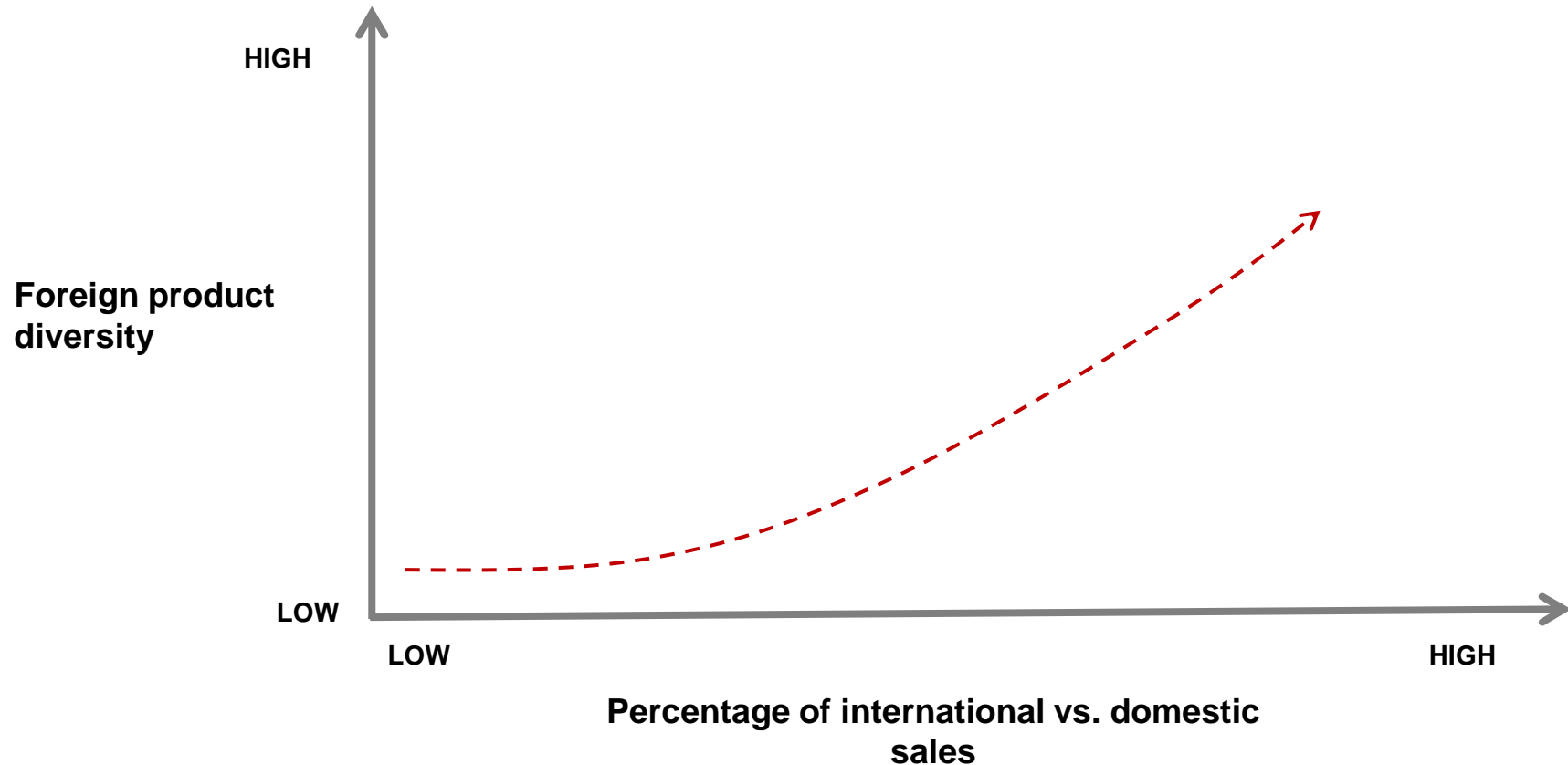


## Adapting the **overall organizational model** in step with increasing internationalization

Nicolay Worren

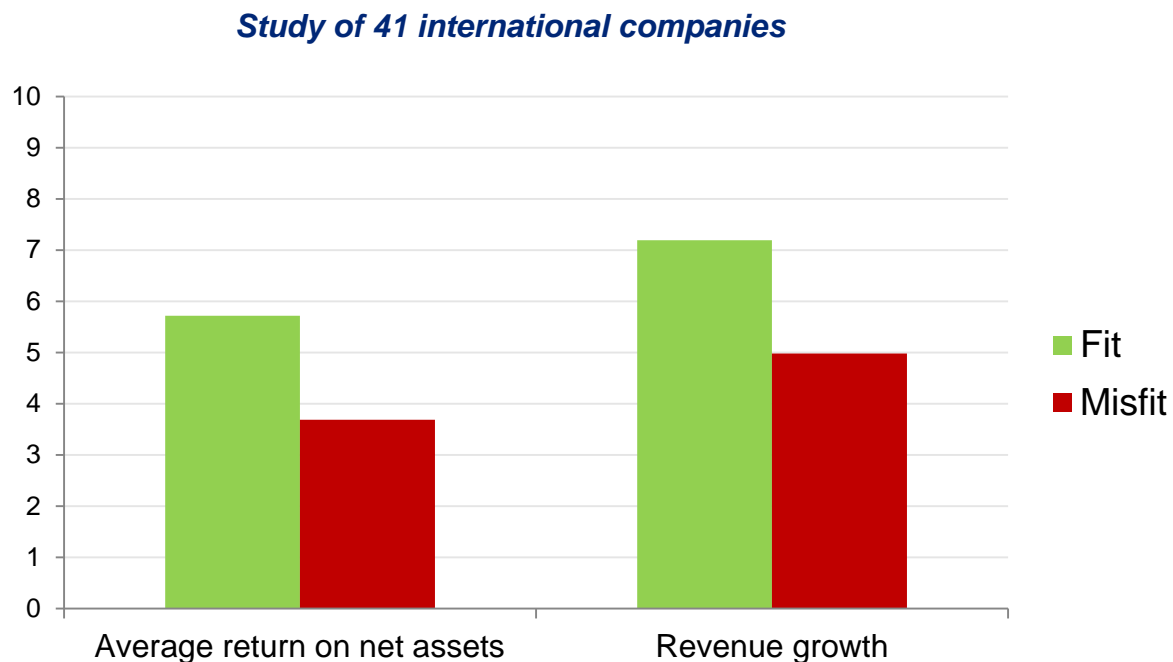
Deloitte Consulting

# The organizational model needs to evolve as the level of internationalization increases



- Typically, the scope of activities undertaken by subsidiaries gradually expands as the level of internationalization increases (e.g., 1) sales office, 2) sales + distribution, 3), sales + distribution + production etc
- But in addition, the overall organizational model may also need to be adjusted.

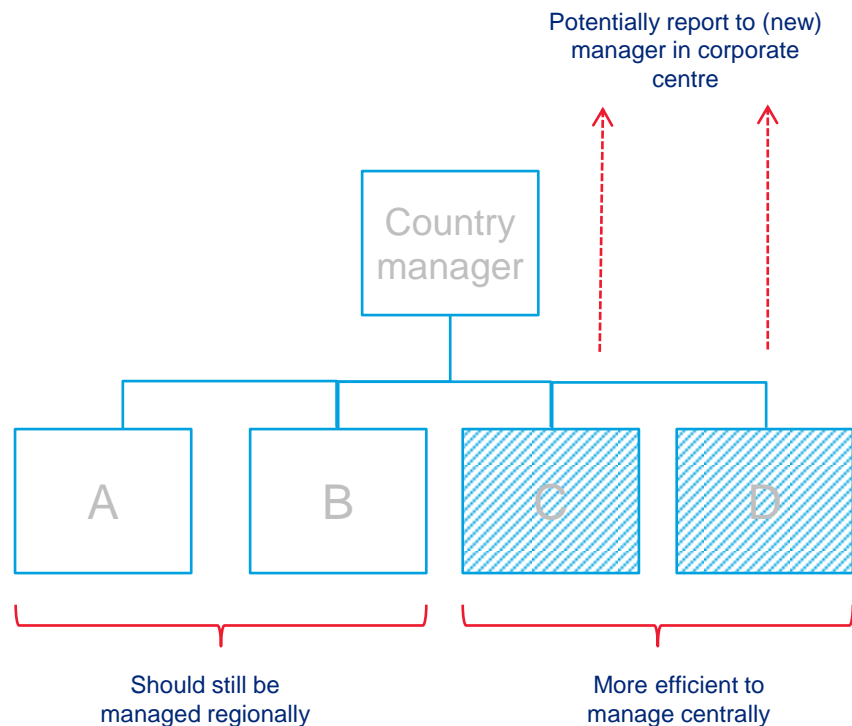
## Research suggests that the choices leaders make with regards to the overall model do matter



Source: Ghoshal & Nohria (1993), Sloan Mngtm Review.

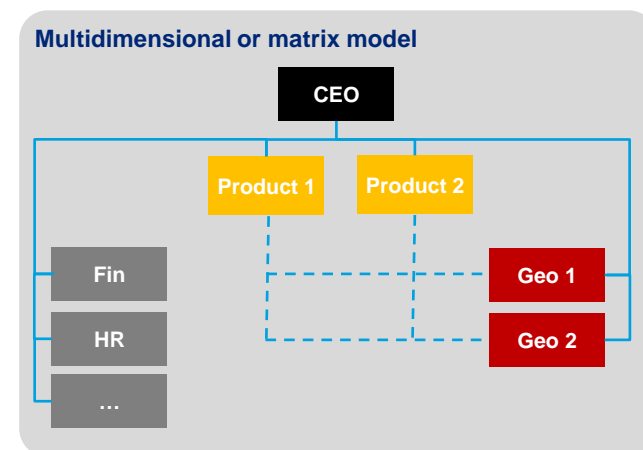
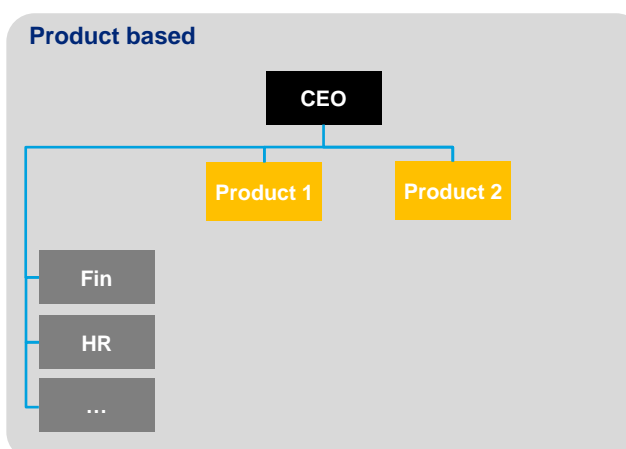
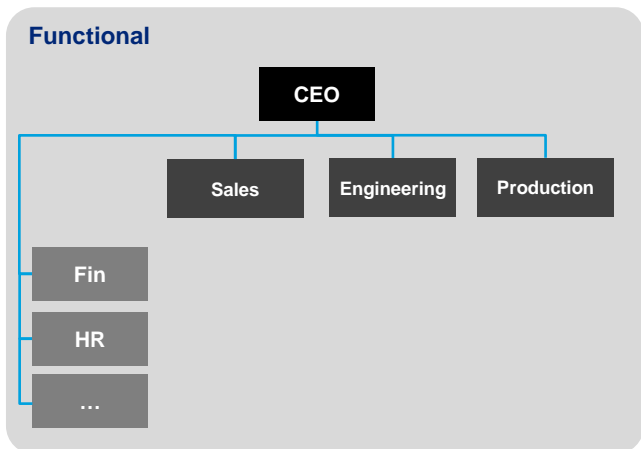
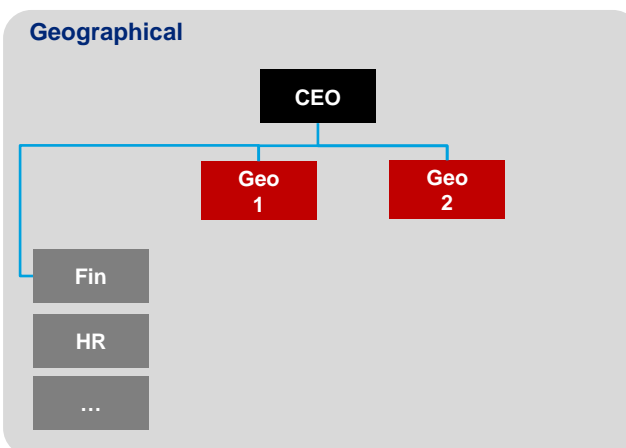
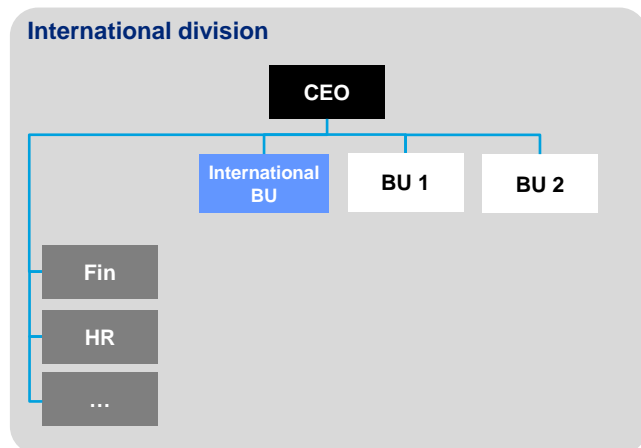
- ▶ The degree of fit between the organization and the business environment is related to corporate performance – see Attachment 1 for details

## We need to consider the overall organizational configuration, even when making changes at the unit/functional level



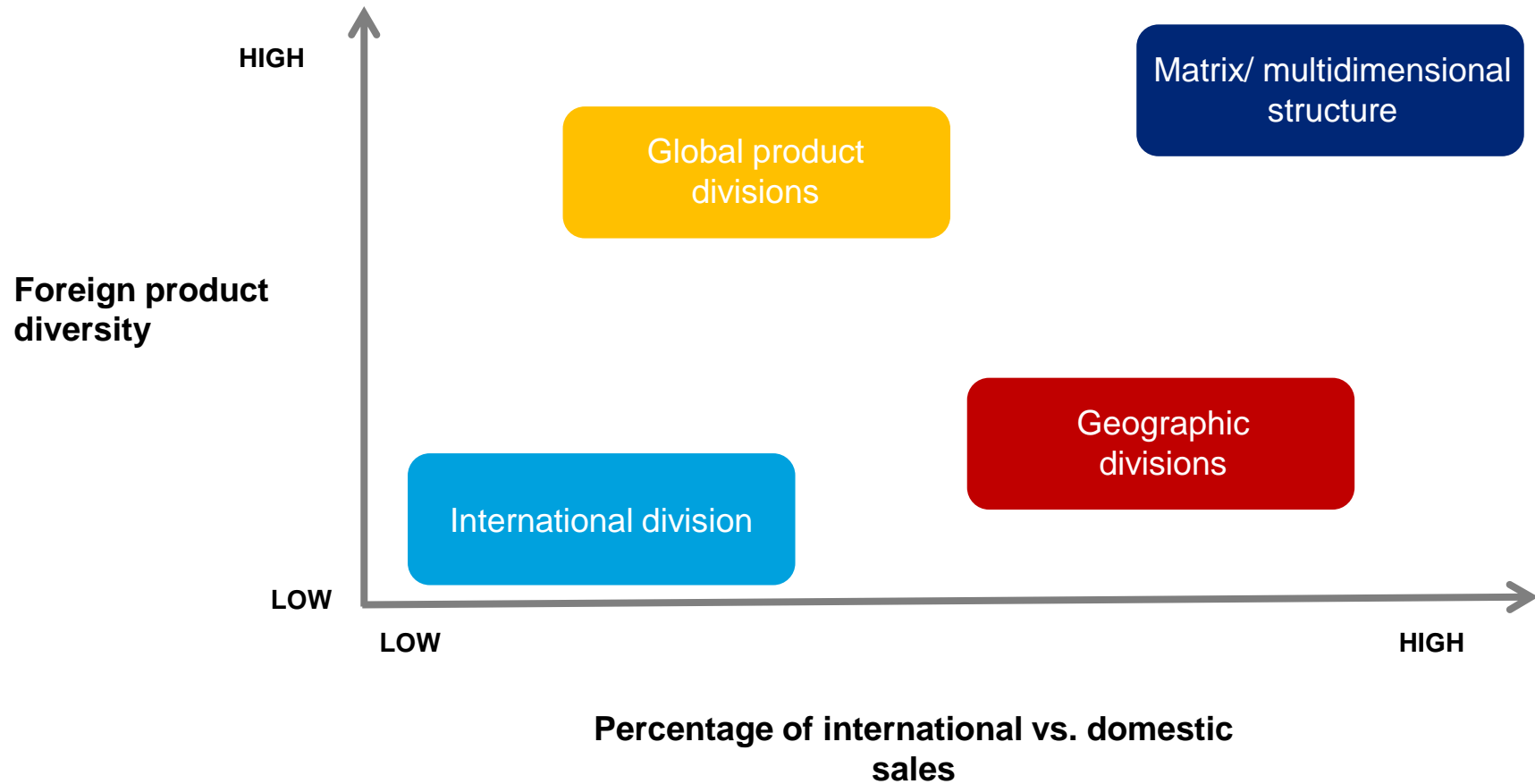
- ▶ Even changes that are made primarily to improve individual units or functions may necessitate a change in the overall organizational model (e.g., to avoid creating an incoherent reporting structure and or to avoid duplication of roles etc.)

# There are five main options with regards to the overall model

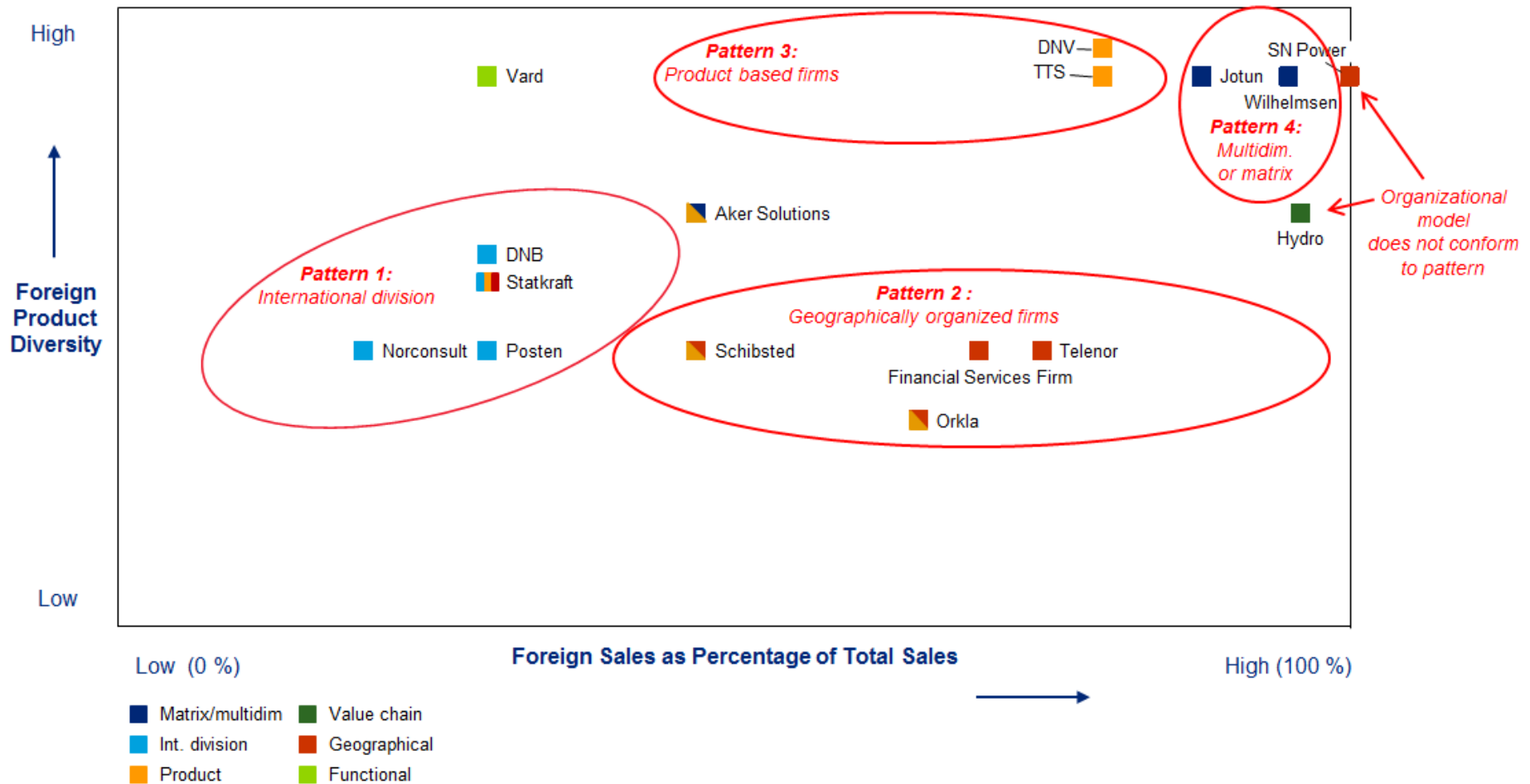


- A product based or geographical mode is in reality often a hybrid form - see attachment 2.
- There are other factors that are relevant too – see attachment 1.

# The Stopford & Wells (1972) postulated that there should be a relationship between structure and the degree of internationalization

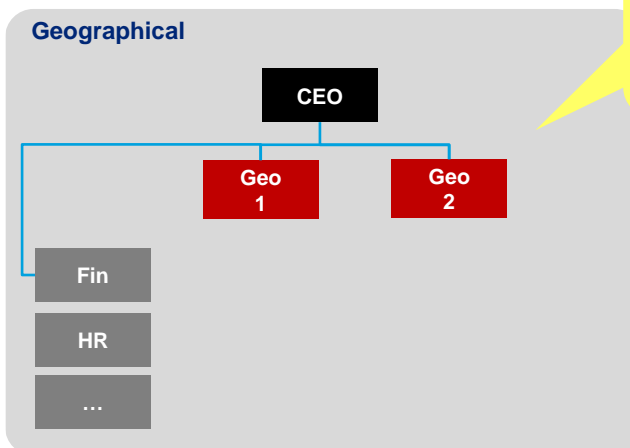
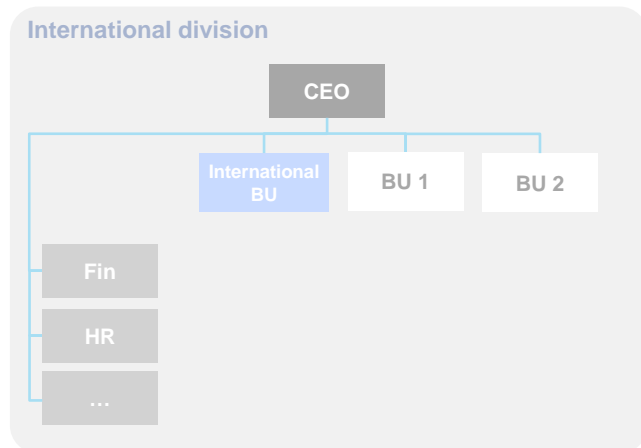


# The main patterns we identified in our study of 16 international firms headquartered in Norway conform to the framework – with some exceptions

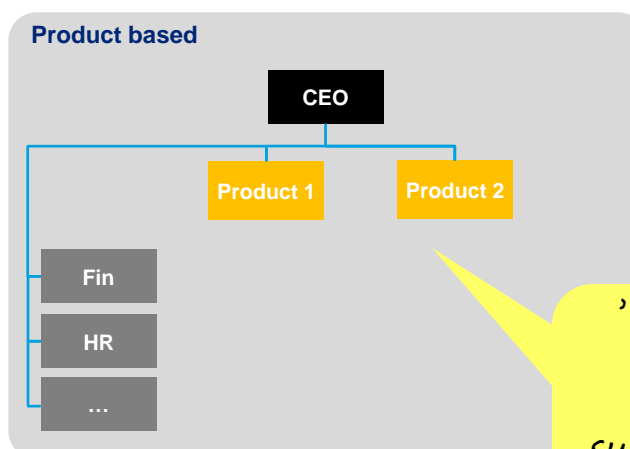
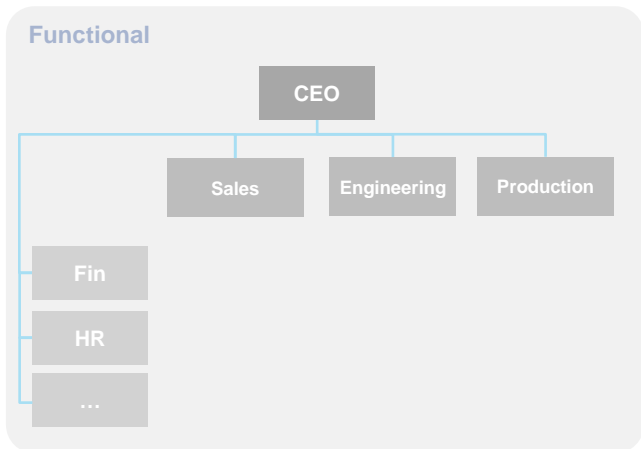
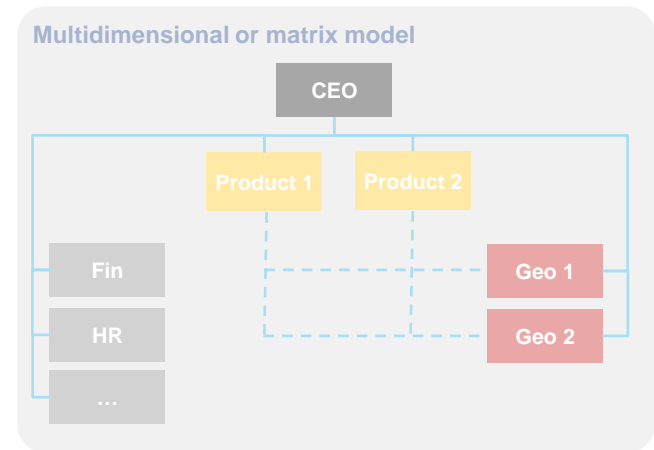


► The Stopford & Wells framework can explain some main patterns, but also has some weaknesses

# The choices we make are partly based on how we interpret the market



"The procurement process and client preferences differ from region to region..."



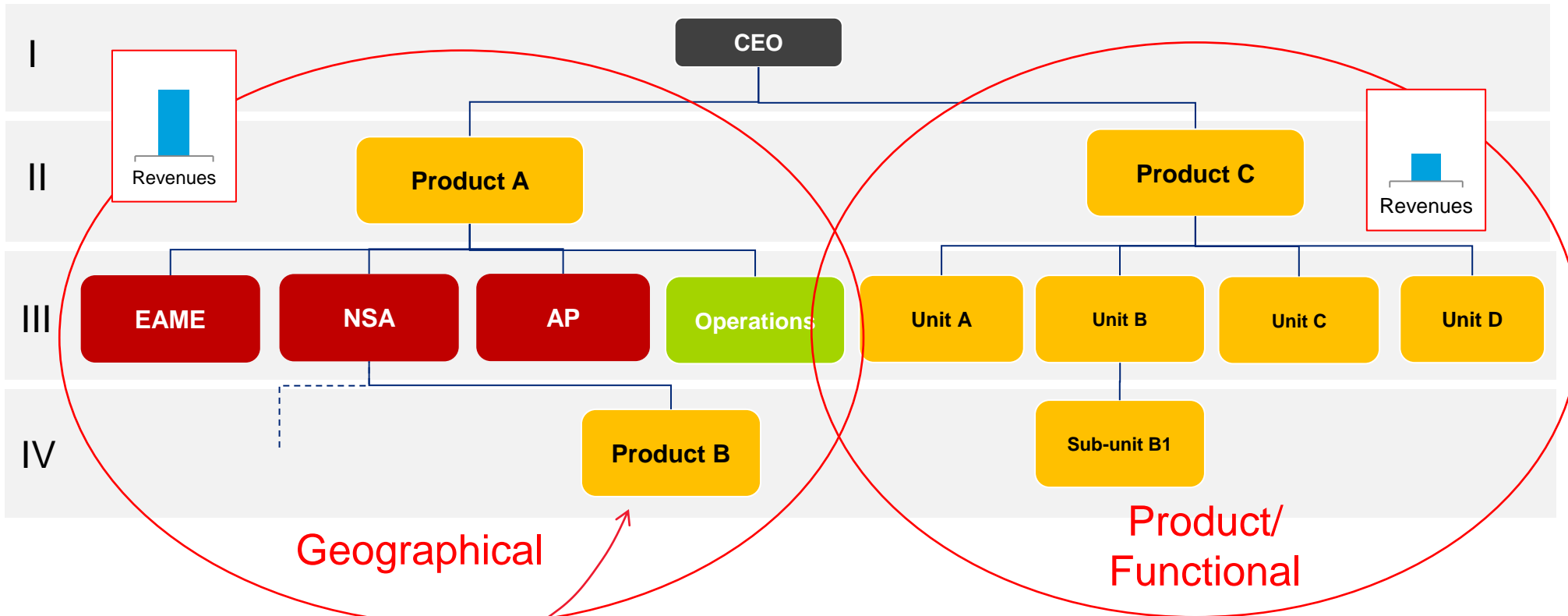
"Our customers are becoming more global and tell us they want to see the exact same supplier organisation in different regions..."

Quotes from interviews with oil services firms



## Brief example from a re-design process in a global firm

At the start of the project, the CEO described the organizational model as the “hot potato among people here....”



*Product B at level 4 in organization*

- ▶ The key concern was related to the Product B unit and its organizational location. Managers had gradually realized that Product B was of key strategic importance but relied on a different business model from Product A (but did utilize the same production resources).
- ▶ Other concerns were related to unnecessary complexity and to «imbalance» given different division sizes

**A set of «design criteria» were defined to guide the development of a new model and to serve as a basis for evaluation of alternative solutions**

**1**

Promoting growth in the Product B business

**2**

Creating a simple organization with few management levels

**3**

Creating a more "balanced" organization with a broader management team

## Two main alternatives were subsequently developed

### Geographical organization



### Product line organization

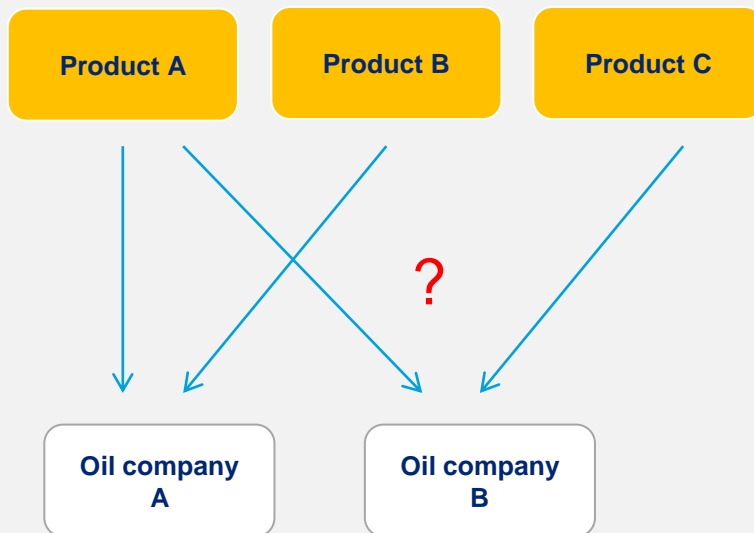
Version a-d



- ▶ A product line structure was chosen based on the design criteria shown above

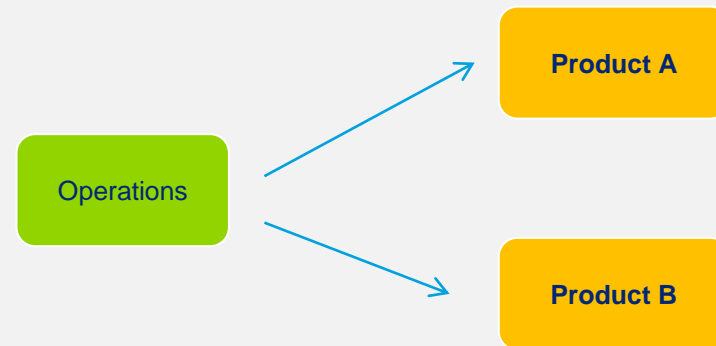
# To verify that a product line model would work, two key interfaces were considered

## Customer interface



- ▶ The conclusion was that there was relatively little overlap with regards to customers (with some exceptions)

## Sales – operations interface



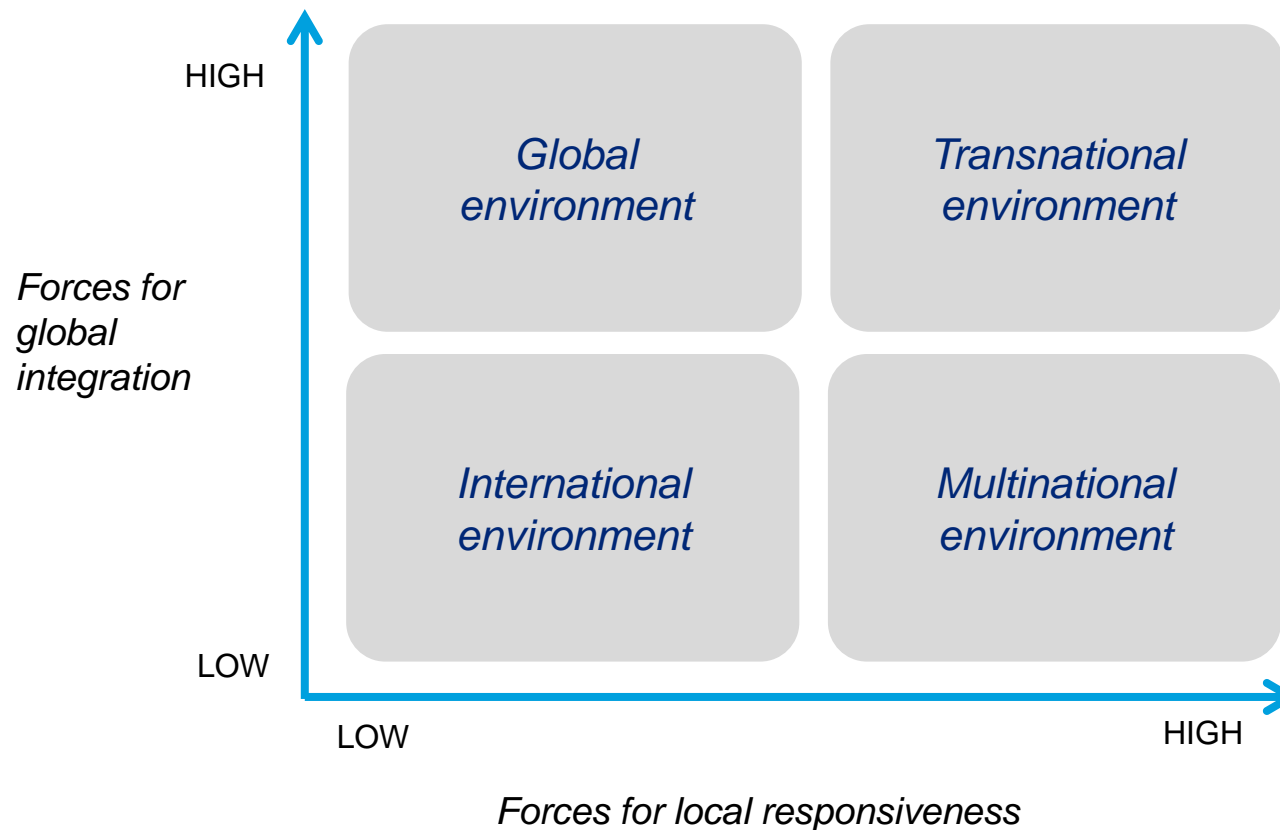
- ▶ The conclusion was that this interface was potentially demanding
- ▶ «Rules of engagement» were developed to ensure that there were clear expectations and criteria for prioritization of assets

## Question for consideration

- Why is it difficult to align the organization with the market?

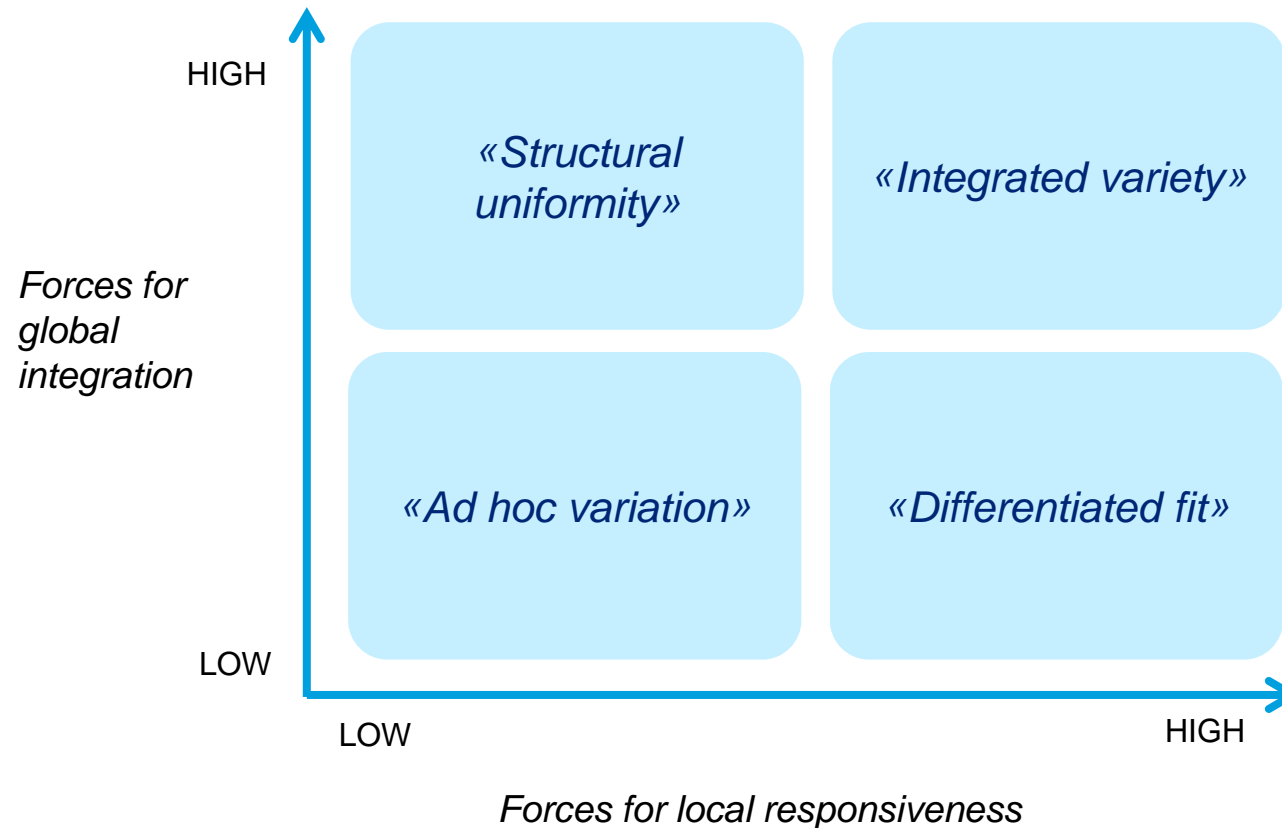
## **Attachment 1**

## The Global Integration – Local Responsiveness framework can be used to categorize market environments in four broad groups





## Ghoshal & Nohria (1993) argued that each required a particular organizational form



- ▶ The key argument was to take into consideration the nature of **the relationship between HQ and subsidiaries** and that this relationship might need to be different, depending on the global *and* local market environment (and the subsidiaries' own resources)
- ▶ In addition to centralization-decentralization they thus also included the degree of differentiation between subsidiaries and the degree of formalization (common standards, procedures, etc.)

# They then tested this model by considering the structure and business environment for 41 firms (including 2 Norwegian ones)

<b>Structure</b>	Integrated variety	<ul style="list-style-type: none"> <li>• Emhart</li> <li>• Norton</li> <li>• Rio Tinto-Zinc</li> <li>• Schneider</li> <li>• Siemens</li> </ul>	<ul style="list-style-type: none"> <li>• General Foods</li> </ul>	<ul style="list-style-type: none"> <li>• Deere &amp; Co.</li> <li>• Hoechst</li> <li>• Norsk Hydro</li> <li>• Solvay</li> </ul>	<ul style="list-style-type: none"> <li>• Colgate-Palmolive</li> <li>• Digital Equipment</li> <li>• Freuhauf</li> <li>• Volvo</li> </ul>
	Structural uniformity	<ul style="list-style-type: none"> <li>• Continental Group</li> <li>• Mannesmann</li> </ul>	<ul style="list-style-type: none"> <li>• Firestone</li> <li>• Jacobs</li> <li>• Suchard</li> <li>• Seagram</li> </ul>	<ul style="list-style-type: none"> <li>• Air Products and Chemical</li> <li>• Alcan</li> <li>• DuPont</li> <li>• Honeywell</li> </ul>	<ul style="list-style-type: none"> <li>• Reckitt &amp; Colman</li> </ul>
	Differentiated fit	<ul style="list-style-type: none"> <li>• Swedish Match</li> </ul>	<ul style="list-style-type: none"> <li>• British-American Tobacco</li> <li>• BSN Groupe</li> <li>• R.J. Reynolds</li> <li>• United Biscuits</li> </ul>	<ul style="list-style-type: none"> <li>• ICI</li> </ul>	<ul style="list-style-type: none"> <li>• General Motors</li> <li>• Glaxo</li> </ul>
	Ad hoc variation	<ul style="list-style-type: none"> <li>• Baker Int.</li> <li>• Bertelsmann</li> <li>• Blue Bell</li> <li>• Friedrich Krupp</li> <li>• Timken</li> </ul>	<ul style="list-style-type: none"> <li>• Electrolux</li> </ul>	<ul style="list-style-type: none"> <li>• Caterpillar</li> <li>• Cummins</li> </ul>	<ul style="list-style-type: none"> <li>• Kodak</li> </ul>
		International	Multinational	Global	Transnational
<b>Environment</b>					

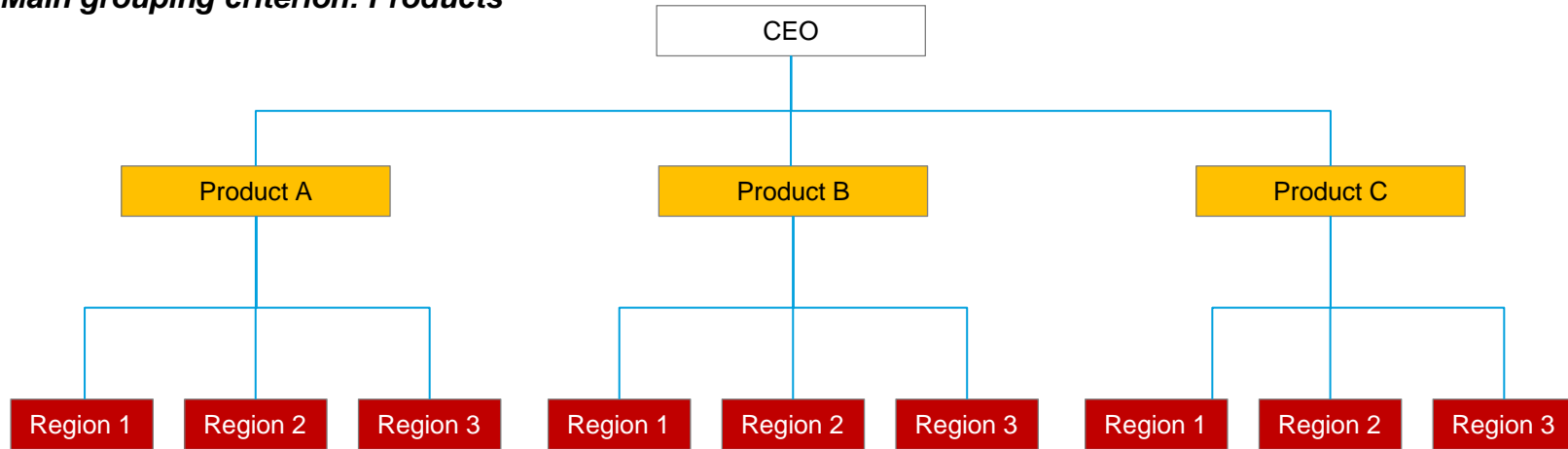
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*The firms along the diagonal = Higher degree of fit between external demands and the organizational structure  
=> Higher margin, return on assets, and sales growth compared to the firms in the red boxes*

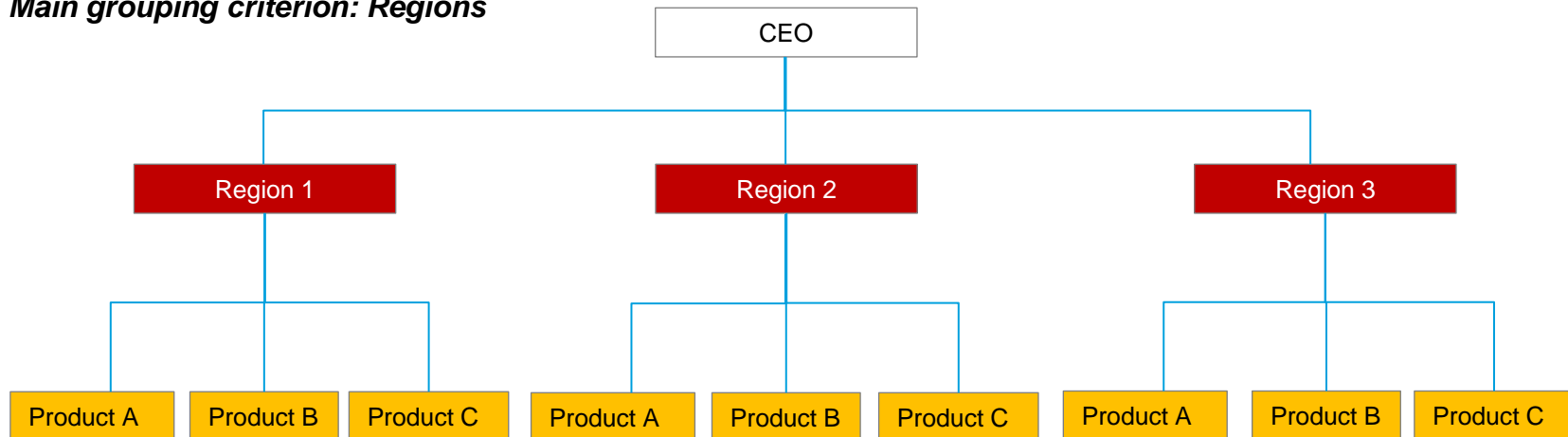
## **Attachment 2**

# Most international firms end up with a hybrid model – there are different grouping criteria at level 2 and 3 – which leads to duplication (or triplication) of units

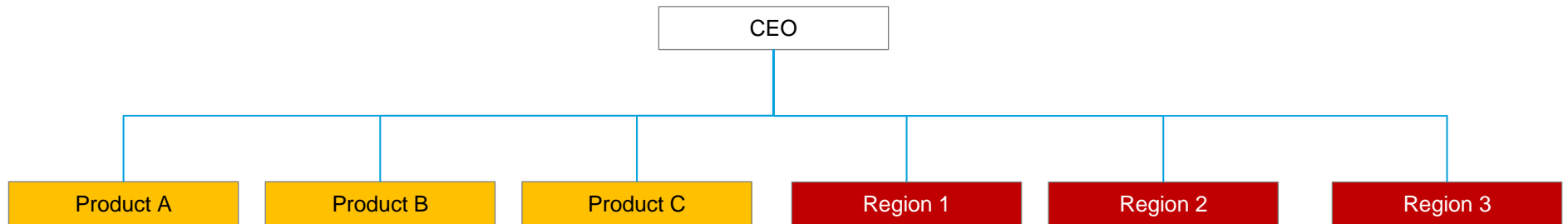
## *Main grouping criterion: Products*



## *Main grouping criterion: Regions*



The only way to avoid this is to choose a multidimensional structure, where the units are represented at the same level



*Units representing two grouping criteria at same level*

- ▶ The key issue with a multidimensional structure is the separation of responsibilities between the two or more dimensions, and the definition of the reporting structure
  - A matrix reporting line may be used, but can often be avoided.
  - For a detailed discussion of this, see Worren (2012).