CHAPTER 11
INTERNATIONAL STRATEGY AND ORGANIZATION

LEARNING OBJECTIVES:
1. Explain the stages of identification and analysis that precede strategy selection.
2. Identify the two international strategies and the corporate-level strategies that companies use.
3. Identify the business-level strategies of companies and the role of department-level strategies.
4. Discuss the important issues that influence the choice of organizational structure.
5. Describe each type of international organizational structure and explain the importance of work teams.

CHAPTER OUTLINE:

Introduction
International Strategy
   Strategy Formulation
      Identify Company Mission and Goals
         Types of Mission Statements
      Identify Core Competency and Value-Creating Activities
         Unique Abilities of Companies
      Value-Chain Analysis
         Primary Activities
         Support Activities
      National and International Business Environments
   Formulate Strategies
      Two International Strategies
         Multinational Strategy
         Global Strategy
      Corporate-Level Strategies
         Growth Strategy
         Retrenchment Strategy
         Stability Strategy
         Combination Strategy
      Business-Level Strategies
         Low-Cost Leadership Strategy
         Differentiation Strategy
         Focus Strategy
   Department-Level Strategies
      Primary and Support Activities
International Organizational Structure
   Centralization Versus Decentralization
      When to Centralize
      When to Decentralize
         Participative Management and Accountability
   Coordination and Flexibility
      Structure and Coordination
      Structure and Flexibility
Types of Organizational Structure
- International Division Structure
- International Area Structure
- Global Product Structure
- Global Matrix Structure

Work Teams
- Self-Managed Teams
- Cross-Functional Teams
- Global Teams

A Final Word

A comprehensive set of specially designed PowerPoint slides (designated ‘PPT’ below) is available for use with Chapter 11. These slides and the lecture outline below form a completely integrated package that simplifies the teaching of this chapter’s material.

Lecture Outline

1. INTRODUCTION (PPT #3)
   - Planning is the process of identifying and selecting an organization’s objectives and deciding how the organization will achieve those objectives. Strategy is the set of planned actions taken by managers to meet company objectives. Developing an effective strategy requires a clear definition of objectives (or goals) and a plan to achieve them.
   - An analysis of capabilities and strengths identifies what a company does better than the competition. Assessing the competitive environment, the national, and the international business environments are part of the analysis.
   - A well-defined strategy coordinates divisions and departments to reach company-wide goals effectively and efficiently. A clear, appropriate strategy focuses on the activities performed best to avoid mediocre performance or total failure.

2. INTERNATIONAL STRATEGY
   Firms must determine what products to produce, where to produce them, and where and how to market them. Whether a site for operations or potential market, each international location has a rich mixture of cultural, political, legal, and economic traditions and processes. All these factors add to the complexity of planning and strategy.

   A. Strategy Formulation (PPT #4)
      *Strategy formulation* permits managers to step back from day-to-day activities and get a fresh perspective on the current and future direction of the company and its industry.

   B. Identify Company Mission and Goals (PPT #5)
      *Mission statement:* written statement of why a company exists and what it plans to accomplish (e.g., Supply the highest level of service in a market segment).

      1. Types of Mission Statements
         a. Mission statements often describe how a company’s operations affect stakeholders—all parties, ranging from suppliers and
employees to stockholders and consumers, affected by a company’s activities.

b. The mission statement of an international business depends on the type of business, the stakeholders, and the most important aspect of the business for goal achievement. Companies must be sensitive to the needs of stakeholders in different nations.

c. Stockholders’ needs for financial returns must be balanced against the public interest in countries where production is located.

d. Managers must define global objectives. High-level objectives are stated in general terms, “to be the largest global company in each industry in which we compete.” Business-unit objectives are more specific, “to mass produce a zero-pollution emissions automobile by 2010.” Department-level objectives often carry numerical performance targets, “to increase market share by 5 percent in each of the next 3 years.”

C. Identify Core Competency and Value-Creating Activities (PPT #6-10)

Before managers formulate effective strategies, they analyze the company, its industry, and the national business environment(s). They should also examine industries and countries being targeted for potential future entry. In-depth analysis helps managers discover core competency and abilities, and the activities that create customer value.

1. Unique Abilities of Companies
   a. Core competency is a special ability of a company that competitors find extremely difficult or impossible to equal. Refers to multiple skills coordinated to form a single technological outcome.
   b. Skills are learned through on-the-job training and personal experience, whereas core competencies develop over a long period and are difficult to teach.

2. Value Chain Analysis
   Value chain analysis is the process of dividing a company’s activities into primary and support activities and identifying those that create value for customers. Primary activities include inbound and outbound logistics, manufacturing, marketing and sales, and customer service. Support activities include firm infrastructure, human resource management, technology development, and procurement. Each primary and support activity is a source of strength or weakness for a company.
   a. Primary Activities
      When analyzing primary activities, managers look for areas in which the company can increase customer value.
   b. Support Activities
      Support activities assist in performing primary activities. A sophisticated infrastructure improves internal communication and supports organizational culture and each primary activity.

3. National and International Business Environments
   a. National differences in language, religious beliefs, customs, traditions, and climate complicate strategy formulation.
   b. Manufacturing processes must sometimes be adapted to the supply of local workers, local customs, traditions, and practices.
c. Differences in political and legal systems complicate international strategies.
d. Different national economic systems complicate strategy formulation.

D. Formulate Strategies
Strengths and capabilities of international companies and environmental forces play a role in strategy.
1. Two International Strategies (PPT #11-12)
a. Multinational Strategy
   i. Adapts products and marketing strategies in each national market to suit local preferences.
   ii. Benefit: monitor buyer preferences in each local market and respond quickly and effectively to new buyer preferences. Drawback: cannot exploit scale economies in product development, manufacturing, or marketing.
   iii. Not suited to industries in which price competitiveness is a key to success.
b. Global Strategy
   i. Offers the same products using the same marketing strategy in all markets.
   ii. Companies take advantage of scale and location economies by producing entire inventories or components in a few optimal locations. They perform product research and development in one or a few locations and design promotional campaigns and advertising strategies at headquarters.
   iii. Benefit: cost savings from standardized products and marketing; lessons learned in a market are shared.
   iv. Yet a global strategy may cause a company to overlook differences in buyer preferences. It does not allow modification except for paint color or small add-on features. Competitors can step in and satisfy unmet local needs creating a niche market.

2. Corporate-Level Strategies (PPT #13-17)
Companies in more than one business must formulate a corporate-level strategy by identifying the markets and industries in which to operate. Overall objectives for different business units are developed and the role of each unit in reaching those objectives are determined.
a. Growth Strategy
   i. A growth strategy is designed to increase the scale or scope of a corporation’s operations. Scale refers to the size of a corporation’s activities; scope to the kinds of activities it performs.
   ii. Organic growth relies on internally generated growth.
   iii. Other methods of growth are mergers and acquisitions, joint ventures, and strategic alliances. Partners in pursuing these include competitors, suppliers, and buyers; firms join competitors to reduce competition, expand product lines, or expand geographically.
b. Retrenchment Strategy
i. Reduces the scale or scope of a corporation’s businesses. Corporations cut back the scale of operations when economic conditions worsen or competition increases by closing factories with unused capacity and laying-off employees. Corporations reduce the scope of activities by selling unprofitable business units.

c. Stability Strategy
i. Guards against change and used to avoid either growth or retrenchment.
ii. Corporations have met objectives, are satisfied with accomplishments, and see no opportunities or threats.

d. Combination Strategy
i. Mixes growth, retrenchment, and stability strategies across a corporation’s business units.
ii. Common because rarely do international corporations follow identical strategies in each business unit.

3. Business-Level Strategies (PPT #18-21)
A company may need only one strategy for its one line of business or others may need many strategies. Key to an effective business-level strategy is a general competitive strategy in the marketplace.

a. Low-Cost Leadership Strategy
i. Exploits economies of scale to have the lowest cost structure of any competitor in an industry.
ii. Companies contain administrative costs and the costs of its various primary activities, including marketing, advertising, and distribution.
iii. Low-cost leadership based on efficient production in large quantities guards against attack by competitors because of the large start-up costs.
iv. A negative aspect of the low-cost leadership strategy is low customer loyalty—buyers will purchase from the low-cost leader if everything else is equal. A low-cost leadership strategy works best with mass-marketed products aimed at price-sensitive buyers.

b. Differentiation Strategy
i. Company designs products to be perceived as unique.
ii. Tends to force a company into a lower-market-share position because it involves the perception of exclusivity or meeting the needs of a certain group.
iii. Companies develop loyal customer bases to offset smaller market shares and higher costs of producing and marketing a unique product.
iv. Products can be differentiated on the basis of quality, brand image, and product design. Special features differentiate goods and services in the minds of consumers. Manufacturers combine differentiation factors in formulating their strategies.

c. Focus Strategy
i. Company focuses on the needs of a narrowly defined market segment by being the low-cost leader, by differentiating its product, or both.
ii. Competition forces more products to be distinguished by price, quality, or design. Greater product range leads to refinement of market segments.

iii. Some firms serve the needs of one ethnic or racial group, whereas others focus on a single geographic area.

4. Department-Level Strategies

Reaching corporate- and business-level objectives depends on effective departmental strategies that focus on activities that transform resources into products. Department-level strategies rely on capabilities—primary and support activities that create value for customers.

a. Primary and Support Activities

i. Each department creates customer value through lower costs or differentiated products.

ii. For primary activities, manufacturing strategies cut production costs and improve product quality; marketing strategies promote differences in products; and efficient logistics result in cost savings.

iii. Support activities create customer value (e.g., R&D identifies market segments with unsatisfied needs and designs products to meet them).

3. INTERNATIONAL ORGANIZATIONAL STRUCTURE

Organizational structure is the way in which a company divides its activities among separate units and coordinates activities between those units. An appropriate organizational structure for a firm’s strategic plans will help it achieve its goals.

A. Centralization versus Decentralization (PPT #22)

- Centralized decision making occurs at a high level in one location such as headquarters. Decentralized decision making occurs at lower levels, such as in international subsidiaries.

- Managers cannot get involved in every hiring decision or task assignment, but overall corporate strategy cannot be delegated to subsidiaries since only top management has the appropriate perspective.

- Companies rarely centralize or decentralize all decision making, but seek the approach that creates the greatest efficiency and effectiveness. International companies may centralize decision making in certain geographic markets, but decentralize it in others.

1. When to Centralize

a. Centralization helps coordinate international subsidiaries; important when one subsidiary’s output is another’s input.

b. Companies maintain strong central control over financial resources by channeling all subsidiary profits back to the parent for redistribution to subsidiaries.

c. Others companies centrally design policies, procedures, and standards to stimulate a single global organizational culture.

2. When to Decentralize

a. Decentralized decision making is beneficial when fast changing business environments require local responsiveness.

b. Because subsidiary managers are in contact with local culture, politics, laws, and economies, decentralized decisions result in products suited to the needs and preferences of local buyers.
c. Delayed response and misinterpreted events results in lost orders, stalled production, and weakened competitiveness.

d. Participative Management and Accountability
   i. Decentralization fosters participative management practices. Employee morale is higher if subsidiary managers and subordinates are involved in decisions.
   ii. If delegated to subsidiaries, decisions about production, promotion, distribution, and pricing can generate greater commitment from managers and workers.
   iii. Decentralization improves personal accountability for business decisions. When local managers are rewarded (or punished) for their decisions, they invest more effort in making and executing them.

B. Coordination and Flexibility
   Key questions: What is the most efficient way to link divisions? Who should coordinate the divisions? How should the company process and deliver information? How should it use corrective measures?
   1. Structure and Coordination
      a. Companies need structure to define responsibility and chains of command—lines of authority that run from top management to each employee and specify internal reporting relationships.
      b. Companies need structures to bind areas requiring cooperation, such as linking R&D and manufacturing to avoid product designs that complicate manufacturing.

   2. Structure and Flexibility
      a. Organizational structure is not permanent, but is modified to suit changes within a company and in its external environment.
      b. Changes in strategy and in the business environment force modifications in organizational structure; some countries are characterized by rapidly shifting business environments.

C. Types of Organizational Structure (PPT #23-26)
   Four organizational structures are common for most international companies—division structure, area structure, product structure, and matrix structure.
   1. International Division Structure
      a. An international division with its own manager keeps domestic and international activities separate. A general manager for each nation in which a company operates then controls product manufacturing and marketing within that market.
      b. Concentrates international expertise in one division where the manager becomes a specialist in foreign exchange, exporting, etc. Firm reduces costs, increases efficiency, and prevents international activities from disrupting home operations.
      c. Potential problems with this structure are: (1) poor coordination between the international division and the rest of the company can hurt performance; and (2) destructive rivalries may arise between different country managers within the division.

   2. International Area Structure
a. Organizes a company’s global operations into countries or regions. The more countries in which a company operates, the greater the likelihood it will organize into regions, not countries.
b. Each geographic division operates as a self-contained unit, with decision making decentralized to country or regional managers.
c. Useful structure when there are vast cultural, political, or economic differences among nations or regions.
d. By controlling activities in their environments, general managers become experts on the unique needs of their buyers. But because units act independently, resources may overlap, and cross-fertilization of knowledge across units can be limited.

3. Global Product Structure
   a. Divides worldwide operations according to a company’s product areas. Suitable when a firm has a diverse set of products.
   b. Because the primary focus is on the product, domestic and international managers for each product division must coordinate their activities so they do not conflict.

4. Global Matrix Structure
   a. Splits the chain of command between product and area divisions. Each manager reports to two bosses—the president of the product division and the president of the geographic area.
   b. Brings together geographic area managers and product area managers in joint decision making.
   c. Bringing specialists together creates a team-type organization. Increases local responsiveness, reduces costs, and coordinates worldwide operations, and can increase coordination while improving agility and local responsiveness.
   d. Two major shortcomings: (1) The matrix form can be quite cumbersome as the need for complex coordination tends to make decision making time consuming and slows the reaction time. (2) Individual responsibility and accountability are blurred in the matrix organization structure; because of shared responsibility, managers may attribute poor performance to the other manager.

D. Work Teams (PPT #27)
   Work teams can be useful in improving responsiveness by cutting across functional boundaries (between production and marketing) that slow decision making in an organization. Work teams coordinate their efforts to arrive at solutions and implement corrective action.

1. Self-Managed Teams
   a. Employees from a single department accept responsibilities of former supervisors. In production settings, self-managed teams reduce the need for direct supervisors and increase productivity, product quality, customer satisfaction, employee morale, and company loyalty.
   b. Quality-improvement teams are the most common type of self-managed team in many manufacturing companies because they reduce production waste and cut costs.
   c. Cultural differences can cause resistance to the concept of self-management and the use of teams. Experts suggest that international managers use caution when implementing them.
d. Certain cultures are less individualistic and more collectivist; some harbor greater respect for differences in status. In cultures in which people are hard working, teams will be productive if given greater autonomy.

2. Cross-Functional Teams
   a. Composed of employees who work at similar levels in different functional departments. Such teams can help improve inter-departmental coordination and help boost product quality.
   b. Break down inter-departmental barriers and reorganize operations around processes, not functional departments.

3. Global Teams
   a. Group of top managers from both headquarters and subsidiaries who meet to develop solutions to company-wide problems.
   b. Large distances between team members, lengthy travel times to meetings, and the inconvenience of working across several time zones can hamper global teams.

4. **A FINAL WORD**
   Managers have the important and complicated task of formulating international strategies at the levels of the corporation, business unit, and department. International managers must identify the company’s mission and goals. Managers often analyze the company’s operations by performing a value-chain analysis. This process lets managers identify and implement strategies suited to a company’s unique capabilities. The strategies managers select then determine a firm’s organizational structure. Business environments can affect managers’ strategy and structure decisions, including whether to alter their products (standardization or adaptation), where to locate facilities (centralized or decentralized production), and what type of decision making to implement (centralized or decentralized decision making).