Chapter 9

International Organisational Structures as Coordination Mechanism

Organisational structures can be understood to represent the “anatomy” of the organisation. They describe the formal design of the organisation’s resources and responsibilities. Different organisational structures lead to different behaviours of the employees because the structure and the subordination in hierarchies define the focus of an employee’s work as well as the official channels of knowledge transfer. The aim of this Chapter is to give an overview of organisational structures and to discuss the strengths and weaknesses of each structure.

Introduction

The formal organisational structure is concerned with how the company decides to divide itself into subunits (Hill 2009, p. 455). The structure is the result of a departmentalisation or grouping of activities within organisational units, following the principle of labour division as a mechanism of organisational influence (Martinez/Jarillo 1989, p. 489). A basic consideration concerning the organisational structure of companies can be based on an argument by Thompson (1967, p. 70). Thompson argued that – under administrative rationality – companies that are active in heterogeneous task environments are attempting to identify more homogeneous subsegments in those tasks and are creating organisational units that have responsibility for one of those more homogeneous tasks. Compared with a purely national organisation, MNCs are facing an additional heterogeneity, namely the different conditions in different host countries (Nohria/Ghoshal 1997).

The organisational design can be seen as the anatomy of the organisation which describes the formal structure of its resources, assets and responsibilities (Bartlett/Ghoshal/Beamish 2008, p. 343). The organisational structure of a company has a number of functions (see, e.g., Griffin/Pustay 2007, p. 385):

- It defines the activities that are grouped together and assigns tasks to its employees.
- It defines the hierarchical structure, including lines of authority, subordination and responsibilities within the organisation.
- It designs the allocation of its organisational resources.
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- It establishes official lines of communication to transfer information necessary for problem solving, decision making and effective organisational control.

In particular, for a MNC, the organisational structure helps to influence the balance between responsiveness and integration. The need for differentiation and responsiveness stems from diverse requirements that exist due to heterogeneity between countries, but also between product lines and between organisational functions. The need for integration comes from the need to coordinate the activities of the MNC in order to ensure strategy implementation and to exploit synergies and to have optimal resource allocation (Shenkar/Luo 2008, p. 314). This integration may also be, inter alia, across countries, across product lines, and/or across functions. In selecting a specific organisational structure, companies influence the level of differentiation and integration. As with international management in general, it is the goal of the company to find a structure that balances the needs for (external) effectiveness and (internal) efficiency.

The most relevant organisational structures for internationally active companies are (Griffin/Pustay 2007, pp. 384-394; Deresky 2008, p. 266):

- domestic structure with export department
- international division
- global functional structure
- global area structure
- global product structure
- matrix structure
- hybrid structure.

Structures at Early Stages of Internationalisation

In the early stages of internationalisation, an organisation is often split into functions reflecting the company’s most relevant value chain activities (e.g. production, marketing & sales, finance, HRM). When companies commence their international involvement with their first exports, this does usually not change the organisational structure. Instead, these exports are often realised as part of the activities of the marketing & sales department of the company.

In the next stage, with increasing exports, the domestic structure may be expanded by adding a specific export department (Deresky 2008, p. 267). Such