Course Learning Outcomes for Unit V

Upon completion of this unit, students should be able to:

1. Explain how the political and economic environment affects decision making.
   1.1 Examine the organizational structure of the United Nations Human Rights Council.

Reading Assignment

Chapter 8:
Organization Structure and Control Systems

Unit Lesson

In recent years, corporations and small companies have entered the global market in larger numbers. If Company B sees that Company A is doing well overseas, Company B will want to enter the global market before Company A corners the market. Other reasons for wanting to engage in global trading might be to avoid trade barriers and increasing costs at home.

Much planning goes into creating overseas corporations or subsidiaries. Managers for these corporations or subsidiaries have to plan strategically, organizing structures for maximum impact, and putting control systems in place that will secure their investments. All stakeholders in these ventures must pay attention to cultural factors that can help them succeed or fail.

In 2011, Target acquired Zellers stores in Canada and entered the Canadian market. In January 2015, it was reported that Target was closing all of its stores in Canada, leaving thousands of people jobless. According to Kopun (2015), Target did not plan strategically. Kopun (2015) quoted Jamie Tate of Tate Economic Research Inc. as saying that Target had “underestimated the Canadian competition . . . You might even want to call it arrogance” (para.2).

When companies enter markets globally, they must organize the structure and design control systems that will stop them from making the same mistakes that were possibly made by Target. When companies create structures, those structures change depending on new strategic directions and the competition. Perhaps Target should have redesigned its organizational structure or rethought its control systems.

According to Deresky, structures that are commonly the focus in the organizational stage include:

- Domestic structure plus export department
- Domestic structure plus foreign subsidiary
- International division
- Global functional structure
- Global product structure
- Matrix structure (2014, p. 244)

Understanding the social and business cultures will help managers determine which structure is best suited to their organization. Small organizations tend to favor the export structure, using contractual services to help them establish their products/services. Later, they can reorganize and move toward having the structure that involves foreign subsidiaries. As their investments grow, those organizations might expand more, leading to an international division organized by those categories that brought them success.

Small corporations or subsidiaries might use the global functional structure, especially if their marketing strategy targets small markets. Those organizations that target more diversified markets tend to use the global product structure, while matrix structures “combine geographic support for both global integration and local responsiveness” (Deresky, 2014, p. 247).

Each of these structures must be carefully considered and will drive the strategies being used. Whichever structure is chosen, managers have to ensure they attend to rules and regulations and to the cultures within which those rules and regulations will apply.

As plans move forward, companies have to focus on producing products targeting specific markets and understanding those markets sufficiently to build effective control systems. As they do so, managers must rely on strategic alliances. Cultural interactions are important and managers must be fully aware of cultural differences that help them to create and maintain positive alliances. Control systems must be carefully designed so that, should a structure fail, it would not be difficult to get rid of a bad partner.

Managers should not underestimate the importance of the control systems they put in place. Attention must be paid to the reporting systems, ensuring that the corporation or subsidiary is meeting the organization’s standards and goals. They are also responsible for meeting any international accounting standards or other standards that may apply in the host country.

When considering e-business, managers will have to work with both e-exchanges and traditional exchanges. When running an e-network, stakeholders include suppliers, contractors, distributors, buyers, and sellers. All exchanges occur in cyberspace. With the connectability of the world’s population today, consumers all over the globe can be checking out your goods and services by simply accessing the World Wide Web with their computer, tablet, or phone. Small businesses all over the planet can attract customers next door, across town, elsewhere in the country or even on other continents. So how can that be bad? It is not bad, but it does raise challenges such as shipping overseas, taxes, duties, local cultural demands, customs laws, environmental concerns, consumer protection issues, or child labor laws. Those considering international e-trade need to be aware of guidelines set forth by the Organization for Economic Cooperation and Development (Federal Trade Commission, 2000).

The reporting systems referred to in your textbook can be set up and maintained using information systems that provide reliable data. Managers should be able to make comparisons across countries. There should be clear links between strategy, structure, and culture.

Additional variables affecting structural choices include geographic dispersion and cultural attitudes toward foreign businesses. These variables introduce further layers of complication. In Africa, “the continent’s total GDP has gone up by about 135% in the past decade. By comparison, the European Union’s collective GDP went up by about 37% during the same period” (International Business Degree Guide, n.d.). Corporations entering new markets will no doubt be interested in what is happening in these fast growing economies and will rely on their managers to understand all the cultural advantages and barriers.

References

Deresky, H. (2014). *International management: Managing across borders and cultures* (8th ed.). Boston, MA: Pearson.

Federal Trade Commission. (2000). *Electronic commerce: Selling internationally a guide for businesses* [Website].Retrieved from https://www.ftc.gov/tips-advice/business-center/guidance/electronic-commerce-selling-internationally-guide-businesses.

International Business Degree Guide. (n.d.). Business is Booming in Africa? [Website]. Retrieved from http://www.internationalbusinessguide.org/africa/.

Kopun, F. (2015). How ‘arrogance’ led to Target’s pullout. *Toronto Star*. Retrieved from http://www.thestar.com/business/2015/01/15/breaking-target-to-pull-out-of-canada.html.

Suggested Reading

The articles below are suggested readings or resources that can provide further information on intercultural management.

International. (2013). *10 successful American businesses that have failed overseas - International business degree guide*. Retrieved from http://www.internationalbusinessguide.org/10-successful-american-businesses-that-have-failed-overseas/.

Lewis, K. (n.d.). *Nine steps to an international marketing strategy*. Retrieved from http://www.business2community.com/strategy/nine-steps-to-an-international-marketing-strategy-044946