## The Organization of International Business

1. As long as a firm's strategy is in line with the competitive environment, it is not necessary for the strategy to be consistent with the organizational architecture.

2. Organizational structure refers to the totality of a firm's organization.

3. A firm's organizational culture refers to the formal organizational structure of the company, the control systems and incentives in place and the human resources component.

4. The bonus a manager might receive if her subsidiary performance exceeds its performance target is an example of an incentive.

5. The various components of an organization's architecture are independent of each other.

6. A firm's vertical differentiation determines where in its hierarchy the decision-making power is concentrated.

7. By centralizing decision making, a firm can avoid the duplication of activities that occurs when similar activities are carried on by various subunits within the organization.

8. A decentralized organization allows managers to respond to environmental changes more quickly than in a centralized organization.

9. The choice between centralization and decentralization is absolute.

10. A firm pursuing a localization strategy will have a strong incentive to centralize decision- making.

11. In a product divisional structure, each division is responsible for a distinct product line.

12. Regardless of a firm's domestic structure, its international division tends to be organized on economy.

13. The worldwide structure tends to be adopted by firms with a low level of diversification whose domestic structures are based on functions.

14. A key disadvantage of the worldwide area structure is that it limits local responsiveness.

15. In a worldwide product divisional structure, each division is a self-contained, largely autonomous entity with full responsibility for its own value creation activities.

16. The worldwide product division structure facilitates local responsiveness.

17. The reality of the global matrix structure is that it often does not work as well as the theory predicts.

18. The need for coordination between subunits is highest in firms pursuing a localization strategy.

19. A global standardization strategy is well suited to firms with a worldwide area structure.

20. The need for coordination between units is greatest in transnational firms.

21. The simplest integrating mechanism in an MNE is direct contact between managers.

22. The matrix structure is designed to facilitate maximum integration among subunits.

23. A knowledge network is a network for transmitting information within an organization that is based on formal organizational structure.

24. Bureaucratic control involves personal contact with subordinates.

25. In a company using cultural controls, employees tend to control their own behavior.

26. The basic principle behind incentive systems is to ensure that the incentive scheme for an individual employee is linked to an output target that he or she has some control over and can influence.

27. Performance ambiguity raises the cost of control.

28. The costs of control can be defined as the amount of time top management must devote to monitoring and evaluating subunits' performance.

29. When we survey the systems that corporations use to control their subunits, we find that not all multinational firms use output and bureaucratic controls.

30. Norms are abstract ideas about what a group believes to be good, right and desirable.

31. It is more difficult for a leader to create an organizational culture from scratch in a new venture than it is to change an established one.

32. An organizational culture can be strong but bad.

33. A strong organizational culture always leads to strong performance.

34. A strong organizational culture might be beneficial at one point, leading to high performance, but inappropriate at another time.

35. It is more important to have a common culture in firms employing a localization strategy than a transnational strategy.

36. Firms pursuing a localization strategy have a high need for coordination between subunits.

37. Firms pursuing a global standardization strategy are more centralized than enterprises pursuing a localization or international strategy.

38. To survive, a firm must strive to achieve a fit of its environment, its strategy and its organizational architecture.

39. In industry after industry, increasing barriers to cross-border trade and investment have led to a change in the nature of the competitive environment.

40. It is important to realize that organizational change will occur regardless of the commitment of senior managers to it.

**Multiple Choice Questions**

41. Which of these terms mean the totality of a firm's organization, including formal organization structure, control systems and incentives, processes, organizational culture and people?
A. Organizational ethics
**B.** Organizational architecture
C. Organizational norms
D. Organizational hierarchy

42. According to the text, superior enterprise profitability requires all of the following conditions to be fulfilled except
A. The different elements of a firm's organizational architecture must be internally consistent
B. The organizational architecture must match the strategy of the firm
C. The strategy and architecture of the firm must not only be consistent with each other, but also consistent with the competitive environment of the firm
**D.** The firm's formal organizational structure must revolve around the indigenous population in each subunit

43. Organizational structure means all of the following, except
A. The establishment of integrating mechanisms to coordinate the activities of subunits
B. The location of decision-making responsibilities with a structure
**C.** The manner in which decisions are made and work is performed by individuals
D. The formal division of the organization into subunits such as product divisions and functions

44. Which term refers to the metrics used to measure the performance of subunits and make judgments about how well managers are running those subunits?
A. Key processes
**B.** Control systems
C. Knowledge networks
D. Job assignments

45. When a company measures the performance of its national operating subsidiaries according to profitability, the company is using
**A.** Control systems
B. Lean processes
C. Incentives
D. Organizational culture

46. The manner in which decisions are made and work is performed within the organization is known as the firm's
A. Organizational culture
B. Incentives
C. Control systems
**D.** Processes

47. Incentives are
A. The metrics used to measure the performance of subunits and make judgments about how well managers are running those subunits
**B.** The devices used to reward appropriate managerial behavior
C. The manner in which decisions are made and work is performed within the organization
D. The norms and value systems that are shared among the employees of an organization

48. The norms and values systems that are shared among the employees of a company are referred to as
A. Processes
B. Control systems
C. Incentives
**D.** Organizational culture

49. A firm's \_\_\_\_\_ determines where in its hierarchy the decision-making power is concentrated.
A. Integrating mechanism
**B.** Vertical differentiation
C. Knowledge network
D. Horizontal differentiation

50. What is vertical differentiation?
**A.** The location of decision-making responsibilities within a structure
B. The formal division of the organization into subunits
C. The mechanisms for coordinating subunits
D. The mechanisms that enable each subunit to operate independently

51. What is horizontal differentiation?
A. The mechanisms that enable each subunit to operate independently
**B.** The formal division of the organization into subunits
C. The location of decision-making responsibilities within a structure
D. The mechanisms for coordinating subunits

52. Integration mechanisms are
A. The formal division of the organization into subunits
B. The mechanisms that enable each subunit to operate independently
**C.** The mechanisms for coordinating subunits
D. The location of decision making responsibilities within a structure

53. Which of the following is an argument favoring centralization?
A. It permits greater flexibility
B. Motivational research favors it
**C.** It can avoid the duplication of activities
D. It gives top management time to focus on critical issues by delegating routine issues to lower-level managers

54. Which of the following is an argument favoring decentralization?
A. It can facilitate coordination
B. It can help ensure that decisions are consistent with organizational objectives
C. It can give top-level managers the means to bring about needed major organizational changes
**D.** It permits greater flexibility

55. Centralization
A. Gives top management time to focus on critical issues by delegating more routine issues to lower-level managers
**B.** Can give top-level managers the means to bring about needed major organizational changes by concentrating power and authority in one individual or a management team
C. Permits greater flexibility because decisions do not have to be "referred up the hierarchy"
D. unless they are exceptional in nature
E. Can be used to establish relatively autonomous, self-contained subunits within an organization

56. A firm that needs greater flexibility should choose \_\_\_\_\_ for its decision-making.
A. Vertical differentiation
B. Centralization
C. Horizontal differentiation
**D.** Decentralization

57. Behavioral scientists have long argued that people are willing to give more to their jobs when they have a greater degree of individual freedom and control over their work. This suggests that
**A.** Motivational research favors decentralization
B. Centralization can facilitate coordination
C. Centralization can ensure that decisions are consistent with organizational objectives
D. Decentralization permits total flexibility with no control

58. Which of the following decisions is typically centralized at a firm's headquarters?
A. Production decisions
B. Human resource management
C. Marketing decisions
**D.** Overall firm strategy

59. The emphasis on local responsiveness in firms pursuing a local responsiveness strategy creates strong pressures for
A. Decentralizing all decisions to foreign subsidiaries
**B.** Decentralizing operating decisions to foreign subsidiaries
C. Centralizing all operating decisions
D. Centralizing all decisions

60. Global learning based on the multidirectional transfer of skills between subsidiaries and the corporate center is a central feature of a firm pursuing a(n) \_\_\_\_\_ strategy.
A. Localization
B. Global standardization
**C.** Transnational
D. International

61. Which of the following would be a typical responsibility of a product division in a product divisional structure?
**A.** Operating decisions
B. Overall strategic development of the firm
C. Financial control of the various divisions
D. None. All decisions are typically centralized

62. Regardless of a firm's domestic structure, its international division tends to be organized on
A. Product
**B.** Geography
C. People
D. Economy

63. In a domestic firm with a product divisional structure, each division is responsible for a distinct
**A.** Product line
B. Individual product
C. Product assortment
D. Product design

64. Which of the following is a problem that arises due to an international division structure?
A. The need to get an area and a product division to reach a decision can slow decision making and produce an inflexible organization unable to respond quickly to innovate
B. It gives limited voice to area or country managers, since it makes them subservient to product division managers
**C.** The heads of foreign subsidiaries are not given as much voice in the organization as the heads of domestic functions or divisions
D. The dual-hierarchy structure can lead to conflict and perpetual power struggles between the areas and the product divisions, catching many managers in the middle

65. The implied lack of coordination between domestic operations and foreign operations, which are isolated from each other in separate parts of the structural hierarchy is a problem encountered with a(n)
A. Global matrix structure
**B.** International division structure
C. Worldwide product division structure
D. Worldwide area structure

66. Which of the following is not regarding a worldwide area structure?
A. It tends to be favored by firms with a low degree of diversification
B. It facilitates local responsiveness
C. It tends to be favored by firms with a domestic structure based on function
**D.** Decision-making responsibilities are centralized

67. This tends to be favored by firms with a low degree of diversification and a domestic structure based on function.
**A.** Worldwide area structure
B. Global matrix structure
C. Worldwide product structure
D. Global network structure

68. Which of the following is a potential drawback of the worldwide area structure?
**A.** It encourages fragmentation of the organization into highly autonomous entities
B. It is inconsistent with a localization strategy
C. It discourages local responsiveness
D. It is not suitable for firms with a low degree of diversification and a domestic structure based on functions

69. Firms structured on this basis may encounter significant problems if local responsiveness is less critical than reducing costs or transferring core competencies for establishing a competitive advantage.
A. International division structure
**B.** Worldwide area structure
C. Global matrix structure
D. Worldwide product division structure

70. A(n) \_\_\_\_\_ tends to be adopted by firms that are reasonably diversified and, accordingly, originally had domestic structures based on product divisions.
A. Worldwide area structure
B. International division structure
**C.** Worldwide product division structure
D. Global matrix structure

71. The main problem with this structure is the limited voice it gives to area or country managers, since it makes them subservient to product division managers.
**A.** Worldwide product divisional structure
B. Worldwide area structure
C. International structure
D. Global matrix structure

72. The worldwide product division structure
**A.** Is weak in local responsiveness
B. Inhibits the realization of location economies
C. Inhibits the realization of experience curve economies
D. Limits the transfer of core competencies between areas

73. In the classic global matrix structure, horizontal differentiation proceeds along two dimensions. These dimensions are
A. Hierarchy and overall strategy
B. Target returns and sales potential
C. Marketing strategy and sales potential
**D.** Product division and geographic area

74. In practice, the global matrix structure
A. Works as well as the theory predicts
**B.** Is often clumsy and bureaucratic
C. Makes it easy to ascertain accountability
D. Results in quick decision making

75. In practice, the dual-hierarchy structure
A. Lessens all forms of conflict
B. Makes it easy to ascertain accountability
C. Results in extremely quick decision making
**D.** Can lead to perpetual power struggles

76. The need for coordination between subunits is lowest in firms pursuing a(n)
**A.** Localization strategy
B. International strategy
C. Global strategy
D. Transnational strategy

77. The need for coordination between subunits is highest in firms pursuing a(n)
A. Localization strategy
B. International strategy
C. Global strategy
**D.** Transnational strategy

78. The simplest integrating mechanism in an MNE is
**A.** Direct contact between managers
B. The use of teams
C. The introduction of liaisons
D. The establishment of the matrix structure

79. A(n) \_\_\_\_\_ is valuable because it can be used as a nonbureaucratic conduit for knowledge flows within a multinational enterprise.
A. Liaison network
B. Matrix structure
C. Organizational structure
**D.** Knowledge network

80. Firms traditionally have tried to achieve coordination by adopting
A. Informal integrating mechanisms
**B.** Formal integrating mechanisms
C. Vertical differentiation
D. Horizontal differentiation

81. The main types of control systems used in MNEs include all of the following, except
A. Personal controls
B. Bureaucratic controls
**C.** Input controls
D. Cultural controls

82. Which control system is most widely used by small firms?
**A.** Personal
B. Output
C. Bureaucratic
D. Cultural

83. Control through a system of rules and procedures that directs the actions of subunits is
A. Personal control
**B.** Bureaucratic control
C. Output control
D. Cultural control

84. Budgets and capital spending are the most important \_\_\_\_\_ in subunits within multinational firms.
A. Cultural controls
B. Output controls
C. Personal controls
**D.** Bureaucratic controls

85. A company using \_\_\_\_\_ achieves control by comparing actual performance against targets and intervening selectively to take corrective action.
A. Personal control
**B.** Output control
C. Bureaucratic control
D. Cultural control

86. This occurs when the causes of a subunit's poor performance are not clear.
A. High certainty
B. Volume predictability
**C.** Performance ambiguity
D. Profitability

87. In firms pursuing a \_\_\_\_\_ strategy, each national operation is a stand-alone entity and can be judged on its own merits.
**A.** Localization
B. Transnational
C. International
D. Global

88. There is low interdependence, performance ambiguity and costs of control in firms pursuing a(n)
**A.** Localization strategy
B. International strategy
C. Transnational strategy
D. Global strategy

89. There is high interdependence, performance ambiguity and costs of control in firms pursuing a(n)
A. Localization strategy
B. International strategy
**C.** Transnational strategy
D. Global strategy

90. Due to the high level of interdependence, the costs of controlling \_\_\_\_\_ firms are higher than the costs of controlling firms that pursue other strategies.
A. Localization
**B.** Transnational
C. International
D. Global

91. In firms pursuing either global or transnational strategies, the usefulness of \_\_\_\_\_ controls is limited by substantial performance ambiguities.
A. Bureaucratic
B. Cultural
C. Personal
**D.** Output

92. These refer to abstract ideas about what a group believes to be good, right and desirable.
**A.** Values
B. Norms
C. Thoughts
D. Ideas

93. Mechanisms to maintain culture include all of the following except
A. The hiring and promotional practices of the organization
B. Reward strategies
C. Socialization processes
**D.** Ongoing cultural assessments

94. Which of the following is not of a strong corporate culture?
A. Almost all managers share a relatively consistent set of values and norms that have a clear impact on the way work is performed
**B.** A strong culture leads to a high performance
C. Outsiders see firms with a strong culture as having a certain way of doing things
D. A strong culture can be a bad culture

95. Sources of organizational inertia include all of the following, except
A. The existing distribution of power within the organization
**B.** National culture
C. The existing culture
D. Senior managers' preconceptions about the appropriate business model

**Essay Questions**

96. What are the three challenges related to strategy and structure that firms must accomplish if they are to achieve superior profitability?

Superior enterprise profitability requires that firms fulfill three conditions. First, the different elements of a firm's organizational architecture must be internally consistent. Second, the organizational architecture of the firm must be consistent with its strategy. Third, the strategy and the structure must not only be consistent with each other, they must also be consistent with the competitive conditions prevailing in the marketplace.

97. Explain organizational structure.

A firm's organizational structure refers to three things. First, the term refers to the formal division of the organization into subunits such as product divisions, national operations and functions. Second, the term refers to the location of decision-making responsibilities within the formal structure. Third, organizational structure refers to the establishment of integrating mechanisms to coordinate the activities of subunits including cross-functional teams and/or pan-regional committees.

98. Discuss the relationship between a firm's control systems and a firm's incentive system. Why is this relationship important?

The relationships between a firm's control systems and incentive systems is a close one.
Control systems are the metrics used to measure the performance of subunits and make judgments about how well managers are running those subunits. Incentives are the devices used to reward appropriate managerial behavior. The relationship between these two areas is important because incentives are very closely tied to performance metrics. For example, the incentives of a manager in charge of a national operating subsidiary might be linked to the performance of that company. Specifically, he/she might receive a bonus if her subsidiary exceeds its performance targets.

99. What are the three dimensions of organizational structure?

Organizational structure can be thought of in terms of three dimensions: First, vertical differentiation or the location of decision- making responsibilities within the firm. Second, horizontal differentiation or the formal division of the organization into subunits. Finally, the establishment of integrating mechanisms that coordinate subunits.

100. Why should a firm centralize its decision-making?

Firms should centralize their decision-making for four main reasons. First, centralization can facilitate coordination. Second, centralization can help ensure that decisions are consistent with organizational objectives. Third, by concentrating power and authority in one individual or a management team, centralization can give top-level managers the means to bring about needed major organizational changes. Finally, centralization can avoid the duplication of activities that occurs when similar activities are carried on by various subunits within the organization.

101. Explain the five reasons why a firm should decentralize its decision-making.

Firms should decentralize their decision-making for five main reasons. First, top management can become overburdened when decision-making authority is centralized and this can result in poor decisions. Second, motivational research favors decentralization - behavioral scientists have long argued that people are willing to give more to their jobs when they have a greater degree of individual freedom and control over their work. Third, decentralization permits greater flexibility - more rapid response to environmental changes - because decisions do not have to be "referred up the hierarchy" unless they are exceptional. Fourth, decentralization can result in better decisions because decisions are made closer to the spot by individuals who have better information than managers several levels up in a hierarchy. Finally, decentralization can increase control.

102. Discuss the location of decision-making in a firm that is following a transnational strategy.

Decision-making in a firm pursuing a transnational strategy is complex. The need to realize location and experience curve economies requires some centralized control over global production centers. Yet, the need for local responsiveness requires the decentralization of many operating decisions, particularly those for marketing, to foreign subsidiaries. Decentralization of decision-making is also needed to allow subsidiaries the freedom to develop their own skills and competencies—a requirement that is necessary for the global learning component of the transnational strategy.

103. Describe the situation where an international division makes sense. How common is this structure? What are the disadvantages of the structure?

When firms initially expand abroad, they often group all their international activities into an international division. In fact, according to a Harvard study, some 60 percent of all firms that have expanded internationally have initially adopted the international division structure.
This type of structure does have problems however. One problem is that the heads of foreign subsidiaries are not given as much voice in the organization as the heads of domestic functions. Second, the isolation between domestic and foreign operations can inhibit the introduction of new products, the transfer of core competencies and the consolidation of global production at key locations.

104. What type of firms favor the worldwide area structure and why? What are the disadvantages of this type of structure?

The worldwide area structure tends to be favored by firms with a low degree of diversification and a domestic structure based on functions. This structure divides the world into geographic areas, each area being a self-contained, largely autonomous unit. Firms choose this structure because it facilitates local responsiveness. Decision-making is decentralized, allowing subsidiaries to customize marketing to local needs. A key disadvantage of this structure, however is the fragmentation of the organization that ensues, making it difficult to realize location and experience curve economies. Firms that choose this structure find it difficult to respond to pressures for cost reductions or to transfer core competencies within the firm.

105. Discuss the type of firm that uses the worldwide product division structure. What are the main strengths and weaknesses with this type of structure?

Firms that adopt the worldwide product division structure are reasonably diversified and originally had domestic structures based on product divisions. In the worldwide product division structure, each division is a self-contained, largely autonomous entity with full responsibility for its own value creation activities. The headquarters retains the responsibility for the overall strategic development and financial controls of the firm. The primary strength of the worldwide product division structure is that it provides an organizational context in which it is easier to pursue the consolidation of value creation activities at key locations necessary for realizing location and experience curve economies. It also facilitates the transfer of core competencies within a division's worldwide operations and the simultaneous worldwide introduction of new products. The main weakness of the structure is the limited voice it gives to area or country managers, since they are seen as subservient to the product division managers. This can lead to a lack of local responsiveness.

106. What is a knowledge network? What is the advantage of such a system?

A knowledge network is a network for transmitting information within an organization that is based not on formal organizational structure, but on informal contacts between managers within an enterprise and on distributed information systems.
The great strength of such a network is that it can be used as a nonbureaucratic conduit for knowledge flows within an organization.

107. Consider the use of personal controls in international firms. In which type of firm is this control most common?

Personal control is control by personal contact with subordinates. This type of control tends to be most widely used in small firms, where it is seen in the direct supervision of subordinates' actions. However, it also structures the relationships between managers at different levels in multinational enterprises. For example, the CEO may use a great deal of personal control to influence the behavior of his or her immediate subordinates, such as the heads of worldwide product divisions or major geographic areas. In turn, these heads may use personal control to influence the behavior of their subordinates and so on down through the organization.

108. What are the two conditions with regard to firm architecture and strategy that are necessary for a firm to succeed?

The fit between strategy and firm architecture suggests that two conditions must be fulfilled if a firm is to be successful. First, the firm's strategy must be consistent with the environment in which the firm operates. Second, the firm's organization architecture must be consistent with its strategy. Without these fits, the firm is likely to experience performance problems.

109. Discuss the sources of inertia in organizations. Is it easy to make organizational changes?

Organizations are difficult to change. Within most organizations are strong inertia forces. These forces come from a number of sources. One source of inertia is the existing distribution of power and influence within an organization. Managers who are not happy with the changes are likely to resist and slow the process. A second source of inertia is the existing culture. Since value systems reflect deeply held beliefs, they can be very hard to change. A third source of inertia derives from senior managers' preconceptions about the appropriate business model or paradigm. Managers may not recognize the value in a given business model that has been successful in the past. Finally, institutional constraints may act as a source of inertia. In some cases, local content rules or regulations pertaining to layoffs can make it difficult for firms to adopt the most effective strategy and architecture.

110. What are the basic principles for successful organizational change?

There are three basic principles for organizational change. First, unfreeze the organization through shock therapy and change the distribution of power and influence. Second, move the organization to a new state through proactive change in the architecture, so that it matches the desired new strategic posture. Finally, refreeze the organization in its new state and socialize employees into the new way of doing things.