

# Chapter 7

## Operational Approaches in Organizational Structure: A Case for MNEs in Developing Countries

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### ABSTRACT

*This chapter analyzes the challenge of organizational setup in developing countries faced by MNEs. In doing so the chapter focuses on different types of structural options available for MNEs and studies factors influencing the decision of how to structure the MNE in developing countries. In essence, the chapter presents a list of structural options for MNEs to choose from according to their needs, contextual situations and strategic direction. The factors influencing the decision to structure the company are general factors, management orientations, corporate culture, information and communication technologies, strategy and learning organizations. Finally, the chapter forwards some essential recommendations for MNEs to follow when deciding about which organizational structure is relatively more suitable than others while operating in developing countries.*

### INTRODUCTION

The organizational set up used by business firms is called by different names such as organizational design, organizational structure, organizational architecture, organization operational system and organizational infrastructure. In this chapter these names and terms are used interchangeably. For any company the organizational structure is like the foundation stone for a tall and multistorey building. Organizations regardless of the activities and functions they undertake have objectives to obtain within a given period of timetable, have activities and functions to perform on hourly basis, and possess resources (e.g., money, people, technology, and information) to administer effectively and efficiently. Achieving the organizational objectives as desired requires the adequate and appropriate utilization of the existing limited resources and for this to happen successfully it would demand from managers the right configuration and distribution of those resources in order to execute the right functions or activities in the right

DOI: 10.4018/978-1-5225-0276-0.ch007

place and at an appropriate time. Therefore, building both the social and physical infrastructure inside an organization is essential for establishing an environment to maintain and promote communication, cooperation and coordination among different organizational actors and units.

In the MNEs context, the organizational structure involves the type and degree of relationship that exists between the headquarters and its subsidiaries located in foreign regions. Rugman (2005) is of the view that “During the past few decades, MNEs mainly located their foreign subsidiaries in their home regions” and, to some extent, in other regions of the Triad (Flores & Aguilera 2007). Over the last few years, MNEs from mature economies have heavily increased their investments in developing countries (Dunning 2009), mostly in emerging markets. The role of foreign subsidiaries located in developing countries has thus considerably increased. This evolution is raising new challenges for the relationships of MNEs with their foreign subsidiaries. In fact, subsidiaries of MNEs are embedded in their local environment (Hennart 2009), establishing relationships with different local actors including governments, suppliers, distributors, clients, etc. (Asmussen et. al., 2009). Moreover, the environment of developing economies differs considerably from the environment of matured markets (Ghemawat & Hout 2008). It thus seems interesting to examine more specifically the relationship between headquarters and subsidiaries in the context of developing countries. Given the changing geography of the world economy (Buckley & Ghauri 2004) and the changing rules of international business competition this question seems particularly relevant for MNEs (Hutzschenreuter & Gröne 2009) operating in developing countries. Therefore, this chapter is dedicated to the theoretical analysis of different organizational structural options available for MNEs to choose from in the process of market expansion, especially moving into the developing markets.

## **ORGANIZATIONAL STRUCTURE**

The literature review is dedicated to the analysis of diverse both conventional and contemporary challenges facing the MNEs doing business internationally, and especially in the context of developing countries or markets. In this chapter the terms developing countries and emerging markets are interchangeable used even though these terms are interpreted differently by different authors in the existing body of knowledge in the field. Some authors understand that a country or market is considered in the emerging stage because the nation is gradually improving its overall economic and business conditions for businesses and investments in comparison with underdeveloped countries or markets. So to say otherwise, these countries or markets are just emerging from the underdeveloped economic and business conditions on several fronts including economic stability, infrastructure development and good governance. Other authors are of the view that a nation or market is defined as an emerging country or market after the country or market has progressed from underdeveloped conditions into developing conditions before becoming an emerging country or nation. The overall business, economic and governance conditions in an emerging nation are relatively better than a developing country or market. For example, some countries or markets such as China, Mexico, India and Brazil used to be considered as developing countries but in the past several years these nations have achieved tremendous economic and business success and thus are directly competing with the global business and economic powers of Europe, Asia and North America.

Generally, the term of structure and design are interchangeably used in the existing literature on management and organizational theories. However, some scholars look at these terms as they are interdependent but different. An organizational structure is the system and design is the process. For example,

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