

This chapter identified the organizational architecture that can be used by multinational enterprises to manage and direct their global operations. A central theme of the chapter was that different strategies require different architectures; strategy is implemented through architecture. To succeed, a firm must match its architecture to its strategy in discriminating ways. Firms whose architecture does not fit their strategic requirements will experience performance problems. It is also necessary for the different components of architecture to be consistent with each other. The chapter made the following points:

1. Organizational architecture refers to the totality of a firm's organization, including formal organizational structure, control systems and incentives, processes, organizational culture, and people.
2. Superior enterprise profitability requires three conditions to be fulfilled: the different elements of a firm's organizational architecture must be internally consistent, the organizational architecture must fit the strategy of the firm, and the strategy and architecture of the firm must be consistent with competitive conditions prevailing in the firm's markets.
3. Organizational structure means three things: the formal division of the organization into subunits (horizontal differentiation), the location of decision-making responsibilities within that structure (vertical differentiation), and the establishment of integrating mechanisms.
4. Control systems are the metrics used to measure the performance of subunits and make judgments about how well managers are running those subunits.
5. Incentives refer to the devices used to reward appropriate employee behavior. Many employees receive incentives in the form of annual bonus pay. Incentives are usually closely tied to the performance metrics used for output controls.
6. Processes refer to the manner in which decisions are made and work is performed within the organization. Processes can be found at many different levels within an organization. The core competencies or valuable skills of a firm are often embedded in its processes. Efficient and effective processes can help lower the costs of value creation and add additional value to a product.
7. Organizational culture refers to a system of values and norms that is shared among employees. Values and norms express themselves as the behavior patterns or style of an organization that new employees are automatically encouraged to follow by their fellow employees.
8. Firms pursuing different strategies must adopt a different architecture to implement those strategies successfully. Firms pursuing localization, global, international, and transnational strategies all must adopt an organizational architecture that matches their strategy.
9. While all organizations suffer from inertia, the complexity and global spread of many multinationals might make it particularly difficult for them to change their strategy and architecture to match new organizational realities. At the same time, the trend toward globalization in many industries has made it more critical than ever that many multinationals do just that.