

# Developments In Business Simulation & Experiential Exercises, Volume 17, 1990

## ORGANIZATIONAL STRUCTURES FOR INTERNATIONAL OPERATIONS: AN EXPERIENTIAL ACTIVITY

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### INTRODUCTION

In multinational business ventures, as in domestic operations, organizational structure is determined by corporate strategy-structure follows strategy. The portion of the strategic plan related to international operations may range from simple export to worldwide operations. Resultantly, the organization structure used to carry out the strategy may range from a small export department to a chart reflecting a fully integrated multinational operation based on geography, product, or function. The purpose of this experiential exercise is to give participants the opportunity to extend their understanding of the organizing function to international applications.

Specifically, you are asked to draw the organization charts for a hypothetical firm, Koca Cola, as it evolves through various stages from early international involvement of production and marketing through subsidiaries companies in host countries.<sup>11</sup>

#### Stage 1: Early Export

Koca Cola (KC) is an American soft drink manufacturer that has had considerable market success in the slowly expanding soft drink market. KC's strategic plan has always placed heavy emphasis on product superiority. "Koke", as it is sometimes called, has recently decided to expand its market by selling its soft drink in a large South American country. However, the company wants to get a better "handle" on the true demand for its product before establishing a marketing subsidiary abroad. Draw an organization chart that reflects the above outlined strategy.

#### Stage 2: Later Export

KC has now been exporting its product to Kantagua (our hypothetical South American country) for 14 months. Unfortunately, the import house being used also services a number of other clients from whom, we have surmised, it feels it can gain greater economic advantage. Resultantly, the import house has done an acceptable but not outstanding job of servicing our product line. Fortunately, however, by working through the import house arrangement, we have become far more aware of the untapped sales potential in Kantagua. The time seems 'ripe' to set up marketing subsidiaries in the three major cities in Kantagua (Kan, Tag, and Gua). In addition, you see growing opportunity for export to sister country, Tankagua, and decide to market your product line through a manufacturer's representative in that country. Draw the organization chart that reflects the revised strategy (all other strategic issues remain as they were in Stage 1.)

#### Stage 3: Early International Production

Three years have now passed since setting subsidiaries in Kantagua and establishing a relationship with a relationship with a manufacturer's rep in Tankagua. During this time Kokes product line has expanded significantly. Koke's competition has also grown considerably. There is far less certainty today regarding business activity than has existed in the past. In addition, implementation of the first diversification strategy at home has resulted in the purchase of two other companies, "Folks" and "Jokes," each with a radically different product line utilizing different production facilities and marketing channels than that of Koke. Folks is a manufacturer of whole-hog sausage; Jokes, a company that produces and markets novelty items (gag and party gifts). While thought has been given to exporting the products of Folks and Jokes to foreign markets, no decision has yet been made. The only firm international decision made by corporate management is that it will establish a joint venture arrangement with Tagua Industries located in the city of Kan to produce Koke for sale and distribution in Kantagua's three major cities (Kan, Tag, and Gua) and in the expanding markets in more rural areas. Draw the organization chart that reflects this revised strategy (all other strategic issues remain as they were in Stage 2).

#### Stage 4: Later International Production

Three additional years have now passed since initiating production of Koke through a joint venture in Kantagua and exporting it from the U.S. to Tankagua. One of the lessons well learned over these years was that while in close proximity to each other, Kantagua, Tankagua, and all of its South American neighbors have major differences in markets, cultures, and laws. These national variations necessitate that business ventures in each country be handled very differently. During this period, company executives have learned a great deal about the wants and desires of the people of Kantagua; they also have had the opportunity to assess more accurately the market for Koke in Tankagua. Furthermore, executives in Tankagua's northern neighbor, Guatanka, have expressed interest in setting up a bottling plant in that country. Government regulations in Guatanka, however, prohibit foreign (U.S. in this case) firms from owning or managing production facilities. Licensing arrangements for production and marketing are legal in Guatanka and such an agreement is reached with this group of executives. Because of significantly improved relations with government officials in Tankagua and very flexible laws associated with business practices there, Koke's corporate officials have decided to build a bottling facility and establish sales Outlets in Nat, Tankagua's capitol. This will be a wholly Owned subsidiary of Koca Cola. Company officials have also succeeded in negotiating an import arrangement for Folks sausage with the import house that had previously handled the Koke account in Tankagua. Because of the significant growth in international activity (now generating more than 35% of the net profit of the corporation), the company has decided to divisionalize its international operations, separating it from its domestic businesses. Draw an organization chart that reflects the above outlined strategy (all other strategic issues remain as they were in Stage 3).

<sup>1</sup> NOTE: Background information and instructor's materials were omitted from this abbreviated version of the exercise. They will be made available at the 1990 ABSEL Conference or can be obtained by contacting Lee Graf, Department of Management and Quantitative Methods, 339 Williams Hall, Illinois State University, Normal, Illinois 61761.