**UNIT 5: STRUCTURE AND ADMINISTRATION OF GLOBAL COMPANIES**

**To be covered under this Unit:** Meaning- Types- Features- Legal Formalities- Administration

**Introduction:**Global companies plan activities on global basis by operating in more than one country. It benefits global economy and activities such as research and development, marketing, finance, etc., globally which may not be available to domestic companies.

**Meaning:**Global company is an organisation that attempts to standardise and integrate operations worldwide in all functional areas. In other words,Global Company is a company/ enterprise/ corporation that does business in many countries. Further, it is a company which has global strategy.

**Features of Global Company:**

1. It thinks and acts globally.
2. It will have domestic location and offices in other countries.
3. It involves selling goods and/or services in many countries.
4. It needs to be innovative and dynamic.
5. It involve cross border trade and transactions.
6. It requires large capital.
7. It synergies operations, marketing, financial planning, etc., on global basis.
8. It has global communication channels.
9. It explores new markets for its product or services throughout the world.
10. It involves import/export of human capital also.

**Advantages of Global Company:**

1. Lower cost
2. New market
3. Creation of new ideas and strategies
4. Ability to take advantage of the situation
5. Effective competitiveness
6. Local advantages from global companies
7. Advantages of core product or services
8. Labour force

**Disadvantages of Global Company:**

1. Objected towards profit maximisation
2. Doesn’t consider consumer’s needs
3. Creation of monopoly
4. Elimination of local competition
5. May manipulate financial statements
6. Depletion of resources
7. Unfavourable Balance of Payment
8. Cross culture complexities
9. Environmental pollutions

**Types of Global Company:**

1. Multinational Corporations(MNCs) : It refers to the business enterprises with manufacturing, sales or services in one or more countries. They are established in one country (Home country) but operate and live under the law and customs of other countries (Host country) as well.
2. International Companies: It refers to the companies registered and operating under long chain of supply in more than one country with its head quarters in single country. Eg: it acquires raw material from one country, manufactures product in second country and sells in third country.
3. Transnational companies: It refers to any company which is registered and operating in more than one country at a time. In short, those companies which produce, markets, invests and operates across the world are known as “Transnational Companies”.

**Approaches of Global Companies:**

1. Ethnocentric Approach: Under this approach, overseas operations are viewed as secondary to domestic operations and primarily as a means of disposing of surplus domestic production. In other words, maintenance of domestic approach towards international business is termed as “Ethnocentric Approach”.
2. Polycentric Approach: Under this approach, the global company establishes a foreign subsidiary in overseas market and operate independently of the other. In short, maintenance of foreign approach towards international business is termed as “Polycentric Approach”.
3. Regio-centric Approach: Under this approach, company views different regions as different markets i.e., markets with unique characteristics are regarded as a single market. Regional environment is concerned for formulating policies, procedures and strategies. Regional aspects are given more importance for developing marketing strategies.
4. Geocentric Approach: Under this approach, the company views the entire world as a single market. Company selects employees from entire globe and operate with a number of subsidiaries. It standardise the marketing mix and sells uniform products in global market. Each subsidiary operates independently.

**Administration of Global Companies:**

**1. Product organisation structure:** Activities are divided on the basis of individual products, product line and service and they are grouped into departments in product organisation structure. All important functions viz., marketing, production, finance and HR are contained within each department.

**Advantages Product organisation structure**:

a. More appropriate than the functional form of organisation for firms producing multiple products.

b. Co-ordination among functional areas as all functions is performed in each department.

c. Enhancement of organisational competency.

d. Responsibility and accountability are clearly fixed for each department.

**Disadvantages of Product organisation structure:**

a. Loss of specialization due to duplication of resources.

b. Inconsistent decisions between departments.

c. Interdepartmental conflicts.

**2. Geographical organisation structure:** Activities are grouped into departments based on the geographical areas or regions. Each geographical unit includes all functions required to produce and market the products in a particular geographical area. This structure is used by chain stores, power companies, dairy products, banking companies, insurance companies, etc.

**Advantages of Geographical organisation structure:**

a. Tailor made strategy for each geographical area.

b. Clarifies profits and loss accountability.

c. Advantages of local operations.

d. Improves functional co-ordination within the target market.

**Disadvantages of Geographical organisation structure:**

a. Geographic uniformity vs. geographic diversity

b. Adds another layer of management to run geographic units.

c. emphasizes regional rather than company goals.

d. Duplication of equipment and personnel.

**3. Decentralised business unit structure:** In this structure, the basic organisational building blocks are its business units. Each business is operated as a stand along profit centre.

**Advantages of Decentralised business unit structure**:

a. Each business unit operates as a stand alone profit centre.

b. Each business unit should be managed by an general manager who is delegated with authority to formulate and execute business strategies.

**Disadvantages of Decentralised business unit structure**:

a. Co-ordination between business units becomes difficult.

b. Adds another layer of management to run geographic units.

c. Results in inconsistent decisions from one region to another region.

d. Duplication of equipment and personnel.

**4. Strategic Business unit structure:** In this type of structure, related businesses are grouped into strategic units. An efficient and senior executive is delegated with the authority and responsibility for its management. A SBU is a grouping of business based on some important, common or related elements like overlapping set of competitors, closely related strategic mission, common need to compete globally, etc.

**Advantages of Strategic Business unit structure:**

a. Provides strategically relevant way to organise the business-unit port-folio of a broadly diversified company.

b. Facilitates co-ordination of related SBU.

c. More objective and effective review of SBU.

d. Allocation of resources to greatest growth opportunities.

**Disadvantages of Strategic Business Unit Structure:**

a. Adds one more layer to top management.

b. Co-ordination may be difficult between SBUs.

c. Less recognition of performance.

d. Difficult to define SBUs.

**5. Matrix Organisation Structure:**Organisational structures discussed earlier have possessed a single chain of command or employees report to only one manager. But, in this organisational structure there is a dual chain of command. Both functional and project managers exercise authority over organisational activities, in matrix structure. Thus, personnel in this structure have two superiors, i.e., project manager and functional manager.

**Advantages of Matrix Organisation Structure:**

a. Facilitates operation in complex and dynamic environment.

b. Managers are aware of strategic issues.

c. Checking and balances among competing viewpoints.

d. Structure has considerable Flexibility.

**Disadvantages of Matrix Organisation Structure:**

a. Very complex to manage.

b. Violates utility of command.

c. Requires decision-making input from many sources.

d. Hard to maintain balance between two line of authority.