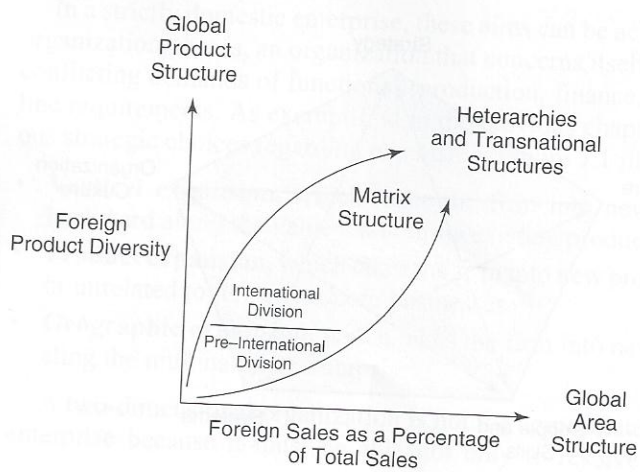
traditional structures as well as newer ways to organize in light of the tremendous changes occurring in the various industry and country environments.

In the early stages of international business as a discipline, the firm's international organization was identified as a response to three major strategic concerns: (1) how to encourage a predominantly domestic organization to take full advantage of growth opportunities abroad; (2) how to blend product knowledge and geographic area knowledge most efficiently in coordinating worldwide business; and (3) how to coordinate the activities of foreign units in many countries while permitting each to retain its own identity. Responses to each of these concerns will differ, depending on the firm's situation and the overall philosophy of top management. In this chapter we focus on the organizational design and ongoing control of international enterprises, that is, on the formal arrangement of relationships between the various domestic and foreign organizational units in the multinational network and the mechanisms provided for their coordination into a unified whole.

The organizational structures of international firms that are covered in this chapter include the following basic hierarchical structures: the pre–international division phase, the international division, the global product structure, and the global area structure. The benefits and concerns of these structures are identified. Furthermore, we identify newer structures that must be considered by firms operating in certain international industries. These structures include the matrix organization, the transnational structure, and the heterarchical structure. Figure 7.3 illustrates these structures and provides a framework for understanding how a firm may evolve its international structure. This framework is based on two critical dimensions for the international firm. The first is *foreign product diversity,* which is an indicator of the number of different products and services a firm sells internationally. It represents the breadth of the firm's international activities. The second dimension is *foreign sales as a percentage of total sales,* which is an indicator of the importance to the firm of the aggregate overseas markets. As will be seen in the discussions below, this framework will help provide a basis for the strategy–structure linkage as well as for changes in a firm's organizational structure.

In most cases, a multinational firm's organizational structure is neither predetermined nor permanently fixed; rather, it evolves continuously to correspond with changes in the firm's strategy. As a firm's operations grow and spread to new foreign markets, its organizational structure typically becomes overburdened. As the pressures intensify and threaten the current organizational structure, the firm is normally

FIGURE 7.3
International Strategy versus International Structure



Source: Adapted from W. Egelhoff, "Strategy and Structure in Multinational Corporations: A Revision of the Stopford and Wells Model," *Strategic Management Journal* 9 (1988), pp. 1–14.