THE STRATEGY AND STRUCTURE OF INTERNATIONAL BUSINESS: FORD 2000 (RESTRUCTURING IN A MULTINATIONAL GLOBAL ORGANISATION)

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The concept of *International Business* has two very distinct features: strategies and structures.

Using Ford Motor Company of Southern Africa as a case in point, this article examines the various *strategic choices*, influenced by cost pressures on the one hand and pressures for local responsiveness on the other. The same organisation will be used to evaluate the different market entry options and foreign direct investment. The determining effects of these strategies are very important for any organisation considering entering the *international business* arena.

The importance of the *organisational structure* is equally important to the strategic choices. It defines the organisational sub-units through what is known as horizontal differentiation, the location of decision-making responsibilities or vertical differentiation and finally the establishment of integrating mechanisms, all forming the basis of *organisational structure.*

The article will be based on published research as well as assumptions with relevant justifications. The references to expert judgements where applicable will add value to the development of managers, preparing them to meet the challenges of *International Business's* strategies and structures.

Key phrases: business strategies, business structures, international business

INTRODUCTION

After the appointment of a new CEO in November 1993, Ford Motor Company's restructuring campaign was launched. Reviewing the success of consolidating the development of engine and transmission main components raised the question whether or not this idea of consolidation can be expanded throughout the company. At this stage Ford was following a highly segmented regional strategy, "managing raw material sourcing, and production, marketing, and support activities within a particular region" (Cullen & Parboteeah 2005:153).

From experience within South Africa, this statement definitely rang true. Ford Motor Company of Southern Africa has an assembly plant in Pretoria, responsible for their manufacturing, warehousing and testing, giving the company flexibility and the ability to respond to regional demands.

The new CEO recognised four motivating factors behind the need for restructuring Ford Motor Company as being the massive duplication of processes, the competitive advantage of competitors' lead time in new car development, low unit profits and the need to effectively enter the emerging markets of China, Russia and Latin America. All of these factors contributed to the establishment of Ford 2000, a restructuring campaign to consolidate the North American and European operations.

The lack of responsiveness to local demands and requirements is one of the potential obstacles facing Ford in their new strategy. This factor is "difficult to manage because of the need to co-ordinate strategies and operating decisions across country borders" (Hitt, Ireland & Hoskisson 2003:253), especially when an organisation with a highly segmented structure, like Ford, has a top priority to "… keep doing what we've been doing" (Treece 1995:94).

This priority, as identified by their new CEO, could be seen as another potential hurdle to Ford's restructuring strategy, but if the effects of trade blocks are considered, we can actually see the benefit of this strategy. Ford will be managing the value chain activities within the regions that they are planning to consolidate, i.e. Europe and North America, where there is "more uniformity of customer needs and expectations within member nations" (Cullen & Parboteeah 2005:153). These trading blocks have the effect of decreased differences between governments and industry-required specifications for products and services.

Ford Motor Company of Southern Africa may rely on the same regional strategy if the trade agreements between African countries are formalised and implemented. According to the African Union (AU) members list during the meeting of African Parliaments in Cape Town in 2003, there are fifty three member countries to the AU (PAP 2003: Internet), and the potential for Ford in these countries are huge if we accept that the SADEC trade agreement will be successful.

In order to achieve efficient operations with this strategy, Ford would need to share not only resources but have effective co-ordination and co-operation across country borders, all facilitated by their centralised headquarters where decisions are controlled. "For multinational companies, organisational control represents the procedures used to focus the activities of subsidiaries in directions that support the company's strategies" (Cullen & Parboteeah 2005:278).

The possibility of organisational problems is also a potential obstacle in Ford's implementation of their new strategy. Considering this being the largest reorganisation program in Ford's 91 year history, the resistance to change will influence the success of this strategy. How management is going to deal with it will determine the level of organisational problems and its influence on the strategy. Even with the built-in safeguard of lessons learnt from other matrix organisations, changing an organisation's culture takes time to be accepted by all the employees.

Ford Motor Company of Southern Africa can be viewed as a part of Ford's worldwide geographic structure, a geographical unit representing Ford Motor Company in a specific region of the world. This regional strategy was followed to enable Ford to differentiate its products for this specific region, and in order for Ford to benefit from this differentiation, it had to depend heavily on an organisational design that allow maximum geographical flexibility.

STRATEGY FORMULATION

This can be seen as the process by which managers select the plans for their organisations in order to outperform the opposition. They will, however, need information to formulate the alternative plans and base their decisions on. It will help managers to understand the competitive dynamics of the industry, and the competitive position of their company within the industry.

According to Cullen & Parboteeah (2005:134), strategy selection is influenced by the potential market size, ease of entry and exit to that market and whether there are economies of scale in the new market. Taking that Ford had to consider these influences, measuring them against their set criteria for success within a region, like price advantages, product quality, cost position for production, and facilities and skilled labour.

This assumption can be justified by the current status of Ford in South Africa. They are producing high quality vehicles in the largest, most modern assembly plant in the Southern Hemisphere, at a very competitive price with a skilled labour force (Ford 2005:Internet). Formulating the best strategies also demands that you understand and anticipate your competitors' strategies, according to Cullen & Parboteeah (2005:137). This suggests that the managers making the strategic decisions should also use a competitor analysis to profile their strategies and objectives. Identifying basic strategic intent, identifying the use of generic strategies, identifying offensive and defensive competitive strategies, and assessing the current position of competitors are all mentioned by Cullen & Parboteeah (2005:137) as steps in formulating a competitive analysis.

This analysis would definitely assist Ford Motor Company of Southern Africa to formulate the most effective strategy against its rivals for market share in the region. Accepting the fact that the motor vehicle industry has a high growth rate and that Toyota follows a focused cost leadership strategy for their Hilux 4x4 vehicles in a country where they have majority market share, it would then make sense for Ford to consider a differentiation strategy in which Ford should invest and expand this market for the Ranger 4x4 range, a typical “star” opportunity according to the BCG Growth-Share Matrix (Cullen & Parboteeah 2005:140).

ORGANISATIONAL DESIGN

According to Hill (2003:445), the “classic global matrix structure horizontal differentiation proceeds along two dimensions: product division and geographic area”. Hill considers the importance of this structure, to the success or failure, of Ford to be substantial. As mentioned above, the competitive advantage that Ford has through its differentiation strategy within the worldwide geographic structure depends heavily on maximum flexibility provided by the organisational design. Is the matrix structure capable to support Ford’s new strategy, and are there any trade-offs between the economies of scale of a centralised headquarters and the responsiveness and flexibility of a decentralised structure?

The matrix structure works well only when there are nearly equal demands from the environment for local adaptation and for product standardisation with its associated economies of scale, according to Cullen & Parboteeah (2005:269). “The reality of the global matrix structure is that it often does not work anywhere near as well as the theory predicts” (Hill 2003:446). This is especially relevant when the slow and cumbersome decision-making process between product and geographic managers are considered, countless meetings ending up in bureaucratic conflict contradicting the flexibility for the organisation it was intended to support. In theory the matrix structure must produce quality decisions, because two or more managers reach a consensus on the course of action best suited for the organisation and customer needs. To make the system work for Ford Motor Company, accountability was introduced. "Without accountability it is always someone else's fault. There are excuses. There are no excuses in Ford 2000; it is very clear where responsibility is" (Done 1995:9).

This hard core approach suggests that Ford Motor Company is very serious about maximising their current competitive advantages and continue to develop resources into core competencies. Rapid but efficient decision-making is one of the ways to achieve this like reducing development lead times on new models. Hill mentions that it took Ford almost seven years and $6 billion to develop the Contour, Mercury Mystique and Mondeo ranges, a cost that would be very difficult to recoup through sales (Hill 2003:509).

The dual-hierarchy of the matrix structure can lead to "conflict and perpetual power struggles between the areas and product divisions" (Hill 2003:446). However, if Ford can succeed in implementing this structure successfully, they can facilitate the sharing of scarce resources within the company with minimum conflict. There must be a willingness to communicate and resolve conflict. To succeed in balancing the inherent struggles between global and local concerns, the matrix requires extensive resources for communication among the managers (Cullen & Parboteeah 2005:270). The matrix structure will allow Ford to have decisions made at lower levels of the organisation where the information originates and knowledge exits. This willingness need to be developed by continued training and reward, instead of dictated management policies (Stonich 1982:60). Taking that Ford was not only attempting to change the way it did business, but also change the corporate culture, "it will be a leaner, hopefully much more efficient, faster, more nimble company than it is today and the management structure will reflect and cause it (Szczensy 119:20).

There were at least five immediate efficiencies gained by Ford through this new strategy: consolidated operations, better control in decision making, establishment of vehicle program centres or VPCs (a decentralised "cost centre"), advanced management information systems and upgraded procurement support programmes like Ford's own Worldwide Integrated Purchasing System (WIPS). "A firm can gain a competitive advantage over other firms by finding sources of lower cost or differentiation in any of its activities", according to Cullen & Parboteeah (2005:127). Any of the activities on the organisation's value chain could be viewed as an added efficiency of the new Ford 2000, especially when the primary activities of inbound logistics, operations, and outbound logistics, marketing and sales and service are considered.

Further to these, all of the support activities can also be viewed as added efficiencies. Here the organisational infrastructure, HR management, technological development and as mentioned above, procurement activities, can contribute to the company's competitive advantage. By centralising the decision-making process, it can be expected that Ford will be more efficient in identifying opportunities, develop the right products to service multiple markets, and improve the organisation's return on development expenses.

All of these primary and support activities forming the value chain could be positively affected by the strategy of Ford 2000, and should actually be considered by the management team of any organisation planning on entering the *International Business* arena. The value chain of any organisation determines the areas where the organisation can add value to their product, capture that created value and present above average returns for the shareholders and investors. Using Ford Motor Company of Southern Africa's differentiation strategy and its focus on "Kaizen" as corporate ethos, this improved value chain can easily be explained.

"Kaizen" is a Japanese word meaning "never-ending improvement" and the use of modern technology has added value to the product for the customer. Shorter production lead time, only 76 man hours, and uncompromised quality has made the Ford range of vehicles a leader in the South African motor industry, proof that a trans-national strategy supported by a well implemented organisation matrix to give it maximum flexibility can yield above average returns. It can be taken that the $3 billion per annum saving for Ford Motor Company is because of its restructuring, focussing on profitability and pursuing low cost. If the success is going to be measured in terms of operational savings, then the possibility for Ford to have success is achievable through their "World Wide Integrated Purchasing System", as well as minimising process duplication in the European and North American plants.

A further measure for success is the potential created for Ford through the possibility of first or early mover advantages. Even though there might be established opposition in identified markets, organisations must exploit experience-based cost economies and location economies, they must transfer core competencies within the firm, and they must do all of this while paying attention to pressures for local responsiveness, according to Christopher Bartlett and Sumantra Ghoshal in Hill's discussion of transnational strategies.

ENTRY STRATEGY AND FOREIGN DIRECT INVESTMENT

There are three basic decisions that an organisation must make when considering foreign expansion: choice of foreign market to enter, timing of the entry, the scale of entry and strategic commitments (Hill 2003:475-477). In addition to these choices, participation strategies deal with how the organisation will actually enter the foreign market or country. They are identified as exporting and licensing, each with their own "sub-strategies" such as indirect exporting, export management companies, export trading companies and direct exporting. Licensing has three "sub-strategies", international franchising, and contract manufacturing and turnkey operations as discussed by Cullen & Parboteeah (2005:159-162).

The choice of *which foreign market* to enter would hinge on the potential of this market in relation to the risks Ford is prepared to take, "balancing the benefits, costs, and risks associated with doing business in that country" (Hill 2003:475). Variables such as political stability, cultural diversity and economic growth are a few of the determining factors.

It can be accepted that Ford had to consider these same factors when deciding on whether or not to establish an assembly plant in Port Elizabeth, South Africa, in 1924, the sixteenth outside North America at that time. Entry into Africa from a politically stable base with healthy economic principles must have been very important, especially when the demographics, purchasing power and future wealth of customers are concerned.

Consider further that Ford decides to establish an assembly plant in Africa to service the Northern regions of the continent, factors like political stability, infrastructure, management skills, productivity and cultural differences are some of the factors that would need consideration. Given the current state of affairs in countries like the DRC, Rwanda, Burundi and Nigeria, the potential economies of scale for Ford are out-weighed by the favourable conditions in South Africa. The participation strategy that makes the most sense for Ford in this region would be direct exporting to foreign distributors, using their knowledge of the local markets to make the sale and ultimately gain market share.

The second factor is the *timing of the market entry*. Early entry would be when Ford enters the identified potential market ahead of any other foreign opposition. Late entry into a market is after the establishment of other international businesses, for the automobile industry, based on the aggressive competition for market share. Accept that this to be more than likely the case for Ford. The company would not be able to capitalise on first mover advantages, however, early or second mover advantages could enable Ford to minimise pioneering costs in the new markets and identify potential problems and hurdles to avoid on entering the market. This is clear from the built-in safeguards that Ford implemented as mentioned in Hill (2003:510), agreed-upon objectives, clearly defined roles and responsibilities, adapted appraisal and reward system, appointment of experienced executives, developed cooperative matrix perspective through training and finally introduced much more open and intensive communication, all to minimise unnecessary delays in operations or increased costs.

Thirdly, the *scale of entry* needs to be considered. Large-scale entry involves the commitment of significant resources. Such an entry choice could have advantages in making it difficult for new entrants to establish a foothold and at the same time attract customers and gain market share. On the other hand, it could be very expensive for the investing company when strategic changes need to be made as its flexibility is constrained by capital commitments. Small-scale entry could give the organisation an opportunity to learn the market first before committing too many valuable resources. Unfortunately this entry strategy will prevent the organisation from gaining rapid market share and exposure. From the information on the website of the Ford Motor Company of Southern Africa, it is clear that Ford has gone for the “large-scale” entry strategy. The assembly plant in Pretoria, with a maximum output capacity of 252 000 vehicles per year, is considered the largest and most modern vehicle assembly plant in the Southern Hemisphere (Ford 2005:Internet).

Ford Motor Company Southern Africa is manufacturing specific models in the Ford range at its South African assembly plant. Ranges include Ford, Mazda, Volvo and Land Rover, making the organisation one of the largest motor manufacturers in South Africa.

For this reason, consider that the local company is a contract manufacturer for the foreign company, a special licensing agreement in Ford Motor Company’s participation strategy. However, this assumption brings us to the concept of foreign direct investment, meaning that "a multinational company owns, in part or in whole, an operation in another country" (Cullen & Parboteeah 2005:164). Ford Motor Company of Southern Africa (Pty) Ltd. is one hundred percent owned by Ford Motor Company, confirming the acquisition of local companies by foreign organisations as a strategy of foreign direct investment.

This strategy has obvious benefits to the acquired company and disadvantages to the acquiring company. Ford Motor Company of Southern Africa received increased capital investment, making it the largest and most modern vehicle assembly plant in the Southern Hemisphere. Accepting that the acquiring company lost some of their experienced managers and design talent, employees using transfer opportunities to operate as expatriates in South Africa, another advantage to the local company. The acquiring company did gain: it increased its potential profit, it experienced an improvement of its local image for the product, and managed to supply at lower cost to the local market.

CLOSURE

As noted in the abstract of this topic, there are two very distinct features in *international business:* strategies and structures. Throughout the article the importance of both these features were examined and assumptions made on the basis of their influence on the organisation that ventures into the arena of *International Business*. The concepts of strategy formulation and organisational designs were discussed, and their importance justified through examples.

Considering the size and activities, it is fair to accept that Ford Motor Company is an international organisation that is faced with strategic choices and organisational structure decisions on a daily basis. Facing the pressures of cost reductions and local responsiveness in order to maintain a competitive cost advantage is very important for any organisation competing in the *international business* arena.

This goal might necessitate an organisation to base its production facilities in the most cost effective location, wherever it might be in the world. It might also necessitate a standardised product to the global market place, spreading the fixed costs of development over a larger volume and ultimately lowering the unit costs.

However, local responsiveness forces an organisation to react to diverse demands and requirements. Differentiated products and marketing strategies are required to fulfil this diverse demand and can involve significant duplication, raising the total cost per unit. Throughout the article these issues were addressed and evaluated. The four basic strategies to enter and compete in the international environment are named by Hill (2003:424) as an international strategy, a multi-domestic strategy, a global strategy, and a transnational strategy.

Ford Motor Company can be seen as an organisation following a transnational strategy for its international activities. "In the modern multinational enterprise, core competencies do not just reside in the home country. Valuable skills can develop in any of the firm's worldwide operations. Thus the flow of skills and product offerings should not be all one way, form home firm to subsidiary, as in the case of firms pursuing an international strategy. Rather, the flow should also be from foreign subsidiary to home country, and from foreign subsidiary to foreign subsidiary - a process referred to as *global learning*" (Hill 2003:424). Organisations that are pursuing strategies to simultaneously create value in these different ways are said by to be following a transnational strategy.

This company faces high pressures for cost reductions, high pressures for local responsiveness on a regional basis and has significant opportunities to leverage valuable skills within its "multinational" global network of operations.

Ford 2000 is a true *International Business* with *Strategies and Structures*.

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