

## Chapter 9

### International Organisational Structures as Coordination Mechanism

Organisational structures can be understood to represent the “anatomy” of the organisation. They describe the formal design of the organisation’s resources and responsibilities. Different organisational structures lead to different behaviours of the employees because the structure and the subordination in hierarchies define the focus of an employee’s work as well as the official channels of knowledge transfer. The aim of this Chapter is to give an overview of organisational structures and to discuss the strengths and weaknesses of each structure.

#### Introduction

The *formal organisational structure* is concerned with how the company decides to *divide itself into subunits* (Hill 2009, p. 455). The structure is the result of a departmentalisation or grouping of activities within organisational units, following the principle of *labour division* as a mechanism of organisational influence (Martinez/Jarillo 1989, p. 489). A basic consideration concerning the organisational structure of companies can be based on an argument by Thompson (1967, p. 70). Thompson argued that – under *administrative rationality* – companies that are active in heterogeneous task environments are attempting to identify more homogeneous subsegments in those tasks and are creating organisational units that have responsibility for one of those more homogeneous tasks. Compared with a purely national organisation, MNCs are facing an *additional heterogeneity*, namely the different conditions in different host countries (Nohria/Ghoshal 1997).

The organisational design can be seen as the *anatomy* of the organisation which describes the formal structure of its resources, assets and responsibilities (Bartlett/Ghoshal/Beamish 2008, p. 343). The organisational structure of a company has a number of functions (see, e.g., Griffin/Pustay 2010, p. 415):

- It defines the *activities* that are *grouped together* and *assigns tasks* to its employees.
- It defines the *hierarchical structure*, including lines of authority, subordination and responsibilities within the organisation.
- It designs the *allocation* of its *organisational resources*.

### *Balance Responsiveness and Integration*

- It establishes official *lines of communication* to transfer information necessary for problem solving, *decision making* and effective organisational control.

In particular, for a MNC, the organisational structure helps to influence the balance between responsiveness and integration. The need for differentiation and responsiveness stems from diverse requirements that exist due to heterogeneity between countries, but also between product lines and between organisational functions. The need for integration comes from the need to coordinate the activities of the MNC in order to ensure strategy implementation and to exploit synergies and to have optimal resource allocation (Shenkar/Luo 2008, p. 314). This *integration* may also be, *inter alia*, *across countries, across product lines, and/or across functions*. In selecting a specific organisational structure, companies influence the level of differentiation and integration. As with international management in general, it is the goal of the company to find a structure that balances the needs for (external) effectiveness and (internal) efficiency.

### *Types of Organisational Structures*

The *most relevant organisational structures* for internationally active companies are (Griffin/Pustay 2010, pp. 415-424; Deresky 2008, p. 266):

- domestic structure with export department
- international division
- global functional structure
- global area structure
- global product structure
- matrix structure
- hybrid structure.

## Structures at Early Stages of Internationalisation

In the early stages of internationalisation, an organisation is often split into functions reflecting the company's most relevant value chain activities (e.g. production, marketing & sales, finance, HRM). When companies commence their international involvement with their first exports, this does usually not change the organisational structure. Instead, these *exports* are often realised as part of the activities of the *marketing & sales department* of the company.

### *Export Department*

In the next stage, with increasing exports, the domestic structure may be expanded by adding a specific *export department* (Deresky 2008, p. 267). Such

a structure is often realised via a *direct reporting structure*, since the export manager reports directly to the top management of the company.

With further international expansion, *operation modes* often change. Sales subsidiaries are common and exporting is often supplemented by foreign production. Thus, the complexity and relevance of international activities lead to the need for internal specialists in those activities. The company may then decide to *bundle all foreign activities* in an international division which is *largely independent*. In this structure, the various foreign subsidiaries and activities, from sales offices to production plants, are organised in the international division and the subsidiary managers report to its head. This manager, in turn, often has a *direct reporting relationship* to the CEO of the company. The *internal organisation* of the international division may be based on function, product, or geography.

The international division allows the MNC to allocate and coordinate resources and it accumulates all knowledge for foreign activities in one organisational unit, facilitating flexible response to changes in the international environment, such as the emergence of new market opportunities. It leads to *clear responsibilities*. On the other hand, the separation of all international activities might lead to *conflicts* for additional resources and it runs the risk of reducing the knowledge flow and the synergy effects between the international business and the domestic business. *Redundant effort* might also pose a problem (Zentes/Swoboda/Morschett 2004, pp. 757-761; Deresky 2008, p. 267; Shenkar/Luo 2008, p. 315).

## Integrated Structures

When the relevance of foreign activities grows further, that is, the percentage of foreign revenues increases and the complexity of foreign activities rises due to different types of value-added activities abroad, the deficits of structures in which international and domestic operations are separated become more evident. In this case, a company may choose to develop an *integrated global structure* in which *domestic and foreign operations are combined* in the same organisational units and are led by the same top managers (Deresky 2008, p. 267). This structure can be organised in various ways, including along functional, geographical or product lines.

## Global Functional Structure

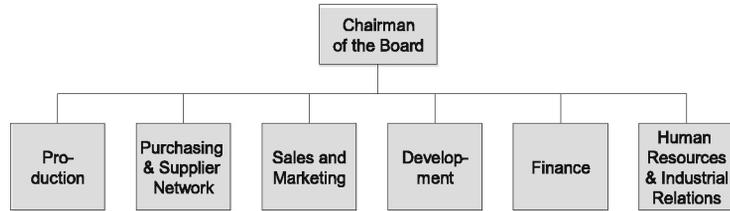
In a global functional structure, the activities of the MNC are organised around specific functions: production, marketing, finance, etc. Departments are created that have *worldwide responsibility* for the specific function.

### International Division

### Characteristics of the International Division

Figure 9.1

Global Functional Structure at BMW Group



Source: BMW 2010.

### Advantages of the Functional Structure

Foreign operations are integrated into the activities and responsibilities of each department to gain *functional specialisation* and *accumulate functional expertise*. Furthermore, function-related *know-how transfer* is facilitated (Dere-sky 2008, p. 267). Usually, functional structures lead to *centralised decision making* and companies that intend to impose *uniform standards* on all their worldwide activities can do that via a functional structure. Thus, this organisational form is sometimes called a “*U-form organisation*”, where the “*U*” stands for “*unitary*”. For subordinates, a clear line of responsibility and authority is given and duplication of effort can be mostly avoided. Further advantages are given in Table 9.1.

Table 9.1

Strengths and Weaknesses of a Global Functional Structure

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>♦ intensive knowledge transfer concerning the function</li> <li>♦ focus on key functions</li> <li>♦ functional expertise</li> <li>♦ centralisation/standardisation</li> <li>♦ helps to “unify” the corporation</li> <li>♦ one line of responsibility</li> <li>♦ avoidance of double work</li> </ul>	<ul style="list-style-type: none"> <li>♦ knowledge transfer concerning other fields rather low           <ul style="list-style-type: none"> <li>▪ specific requirements of certain product groups, regions, customer groups often neglected</li> </ul> </li> <li>♦ potentially low motivation due to centralisation</li> <li>♦ slow reaction to changes in certain countries due to standardisation and formalisation</li> <li>♦ high requirements for information processing at the top management</li> <li>♦ potentially lack of market orientation</li> <li>♦ difficult for subsidiaries with whole value-added chains</li> </ul>

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 765.

However, the *specific requirements* of certain product groups and regions might be *neglected* in this structure. There is the risk of a *lack of market orientation* in the organisation and *high requirements for information processing* at the top where all major decisions for a function are taken.

The structure is mainly *adequate* if the company has rather *homogeneous product lines*, i.e. a low level of diversification, and if markets for its products are not strongly heterogeneous. For example, a *global strategy* which intends to exploit economies of scale and international synergies by strongly integrating activities around the world can be implemented with a functional structure.

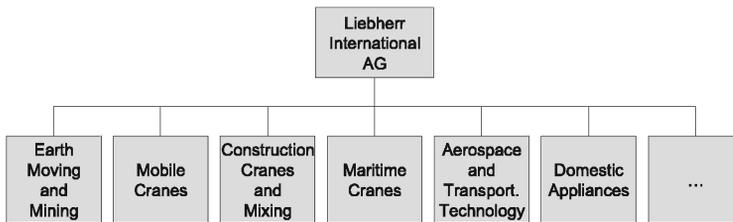
### Global Product Structure

In a global product structure, the activities of the MNC are organised around specific products or product groups. Departments or divisions are created that have worldwide responsibility for all functions concerning the specific product. This structure is frequently used by MNCs. It is often called a “*M-form*” structure, where “*M*” stands for “*multi-divisional*”.

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#### Global Product Structure at Liebherr

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Source: Liebherr 2007.

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The product structure allows managers to *accumulate knowledge on their specific product* and develop high expertise. Knowledge transfer concerning the product is high. The structure aids *efficiencies in production*, e.g. to achieve economies of scale and to exploit synergy effects fully. Similarities in needs across different markets are usually emphasised. Managers have the *responsibility for all value-chain activities* for the product, i.e. production, marketing, development, which strongly increases the cross-functional collaboration. This facilitates the establishment of *cross-border value chains* for a product

*Disadvantages of the Functional Structure*

Figure 9.2

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*Advantages of the Product Structure*

*Disadvantages  
of the  
Product Structure*

where development might take place in highly developed countries, the manufacturing of most components be located in low-cost countries and other, more sophisticated production steps in industrialised countries (Shenkar/Luo 2008, p. 320). Furthermore, a *rapid and flexible response* to changes in market conditions is facilitated by this structure.

On the other hand, all *functions* (e.g. marketing, sales, production) are *duplicated* in this organisational structure. Each product group needs to develop functional skills and often even its own physical facilities for operations. Economies of scope, e.g. knowledge concerning certain production processes or cross-use of new technological economies, are not fully considered. Regional knowledge needs to be developed in each product unit on its own and *divisional egoism* is a common source of conflict. A more detailed list of advantages and disadvantages is shown in Table 9.2.

Table 9.2

*Strengths and Weaknesses of a Global Product Structure*

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>♦ intensive knowledge transfer concerning the product/product groups</li> <li>♦ focus on differences between products</li> <li>♦ expertise for specific products</li> <li>♦ usually high market orientation of product divisions</li> <li>♦ coordination in companies with heterogeneous products facilitated</li> <li>♦ holistic view on the value chain</li> <li>♦ promotion of entrepreneurial behaviour</li> <li>♦ economies of scale easily exploited</li> <li>♦ flexible response to changes in product requirements</li> </ul>	<ul style="list-style-type: none"> <li>♦ duplication of functions</li> <li>♦ knowledge transfer concerning other fields (e.g. functions, regions) rather low</li> <li>♦ coordination and cooperation between different product divisions more complicated</li> <li>♦ risk of divisional egoism</li> <li>♦ difficult for foreign subsidiaries with more than one product line</li> <li>♦ lack of economies of scope</li> </ul>

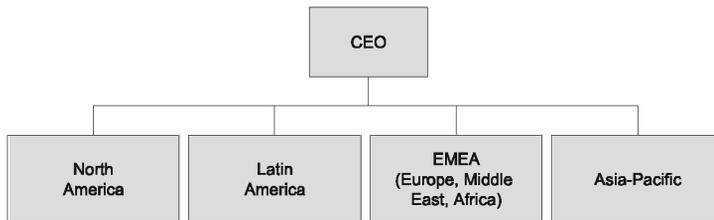
Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 767.

Usually, a global product structure is *adequate* for companies with *very heterogeneous product lines* and technological requirements for those product lines because in this case common expertise for all product lines would be too complex. In particular, the structure can be applied when knowledge exchange and coordination between different product lines are not very important. Furthermore, the product structure is also adequate to implement a *global strategy* in which product-specific decisions are standardised world-wide.

## Global Area Structure

In a global area structure (also called *global geographic structure* or *regional structure*), the activities of the MNC are organised around specific areas (or regions). An area may be a country or a *group of countries*. Departments or divisions are created that have responsibility for all functions and all products concerning the specific region.

### Example of a Global Area Structure



*Geographic divisions* may be based on country borders but also on cultural similarities (for example the D-A-CH region (Germany-Austria-Switzerland)), regional integration agreements (like the EU), or logistical requirements (Shenkar/Luo 2008, p. 316). Following a trend from globalisation to regionalisation (Rugman/Verbeke 2003b), a *trend to geographic organisational structures seems likely to re-emerge* (Shenkar/Luo 2008, p. 316).

Divisions with responsibility for one region facilitate a flexible and rapid response to changes in the local environment and help to *exploit local market opportunities* by enhancing responsiveness. *Coordination is easier*, not least due to geographical proximity. *Lines of authority* are very clear and they are local, providing easy channels for communication. The structure provides a holistic view on all business activities in the region, thereby also helping to develop a uniform image in the region. Market and marketing-oriented companies often use this structure. Regional knowledge is accumulated and regional particularities fully acknowledged in the organisation. In this case, each area tends to be self-contained.

However, integration across the other organisational dimensions is weaker and often, the complexity of heterogeneous product offers is not fully considered. *Functions are duplicated* in the different regions and due to a *lack of worldwide synergy effects*, resources are often also accumulated and established in each region. The risk of *regional egoism* emerges and it might be

Figure 9.3

*Advantages  
of the  
Global Area  
Structure*

*Disadvantages  
of the  
Global Area  
Structure*

difficult to transfer knowledge across regions. Thus, the diffusion of technological innovations in the organisation might be slow and the “not invented here” syndrome might also be a barrier to knowledge transfer. Synergy effects as well as economies of scale are often not fully exploited in this structure (Zentes/Swoboda/Morschett 2004, pp. 769-771; Shenkar/Luo 2008, p. 318). A list of strengths and weaknesses is displayed in Table 9.3.

Table 9.3

Strengths and Weaknesses of a Global Area Structure

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>♦ intensive knowledge transfer concerning the region</li> <li>♦ focus on differences between regions</li> <li>♦ regional expertise</li> <li>♦ communication and coordination advantages: personal communication as coordination instrument easy to use due to geographic proximity</li> <li>♦ holistic view on the business in the region</li> <li>♦ uniform company image in the region</li> <li>♦ flexible response to changes in local environment (local responsiveness easy)</li> </ul>	<ul style="list-style-type: none"> <li>♦ duplication of functions</li> <li>♦ duplication of resources</li> <li>♦ coordination and knowledge transfer across regions might be difficult and slow</li> <li>♦ risk of regional egoism</li> <li>♦ risk of overemphasis on regional differences</li> <li>♦ risk of low cost efficiency and low economies of scale due to local adaptation</li> <li>♦ diffusion of technology might be slowed down</li> <li>♦ “not invented here” syndrome</li> <li>♦ problems in technologically dynamic environments</li> </ul>

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 770.

Thus, this structure is most *adequate* for companies that intend to *adapt to foreign markets* (such as companies in the consumer goods sector) and that accept low information flows between different regions. In the I/R-framework (see Chapter 2), a *multinational strategy* seems to correspond closely to the strengths of a global geographic structure.

### Other Dimensions for Structures: Customers or Projects

Besides functions, products or areas, other dimensions for global structures are possible. The question for a company is which object of its business is so relevant and at the same time so heterogeneous that it demands specific attention, specific expertise and specific treatment. This can be, e.g. in construction companies, specific projects.

More and more often, this object is the customer. If a company has very heterogeneous customer groups (such as commercial customers and private customers) or just a few, but very powerful customers (as for example, some automotive suppliers or companies that sell their products via independent retailers), a company organises around customers, with specific departments

being responsible for a customer group or even a specific customer on a worldwide basis. In the latter case, the *global customer structure* is equivalent to *key account management*.

## Global Matrix Structure

While the organisational structures that have been discussed above are *uni-dimensional*, i.e., they structure the top level of the organisation based on one single dimension (e.g. functions, areas, or products), the matrix design is *multi-dimensional*. A global matrix structure is the result of applying (at least) two structural dimensions *simultaneously* at the highest level of hierarchy.

Example of a Global Matrix Structure

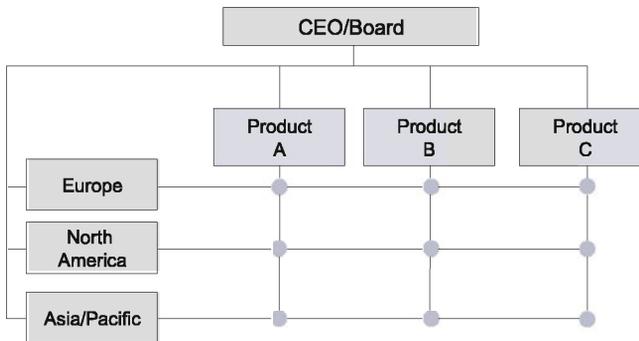


Figure 9.4

For example, a global area structure and a global product structure could be used at the same time (see Figure 9.4), but any other combination of areas, functions, regions, customers, etc., is possible. The managers in the matrix cells (nodes in the grid above) which represent, for example, managing directors of specific foreign subsidiaries, are simultaneously responsible to two executives in the two given lines of authority.

The main advantage of this structure can be seen in the *access to all advantages of the two underlying dimensions* without combining all the caveats. For example, the MNC can build on both the product and the regional expertise of the two different lines of authority. *Knowledge transfer* is intensive and the simultaneous considerations of the specific requirements of at least two dimensions makes decision processes complex but often very balanced between the different needs. This forced consideration of two aspects of the business

*Advantages and Disadvantages of the Matrix*

should lead to an efficient allocation of resources. *Conflicts* in the organisation (which are based on the two-dimensional lines of authority) are intended, but are assumed to enhance the efficiency. Usually, this structure is *flexible* and easily adapted to changing external conditions. The structure is intended to *promote coordination* among the different structural dimensions. At the intersection of two lines of authority, a subsidiary manager has to report to two different supervisors. This enhances the information flow and the consideration of different aspects for a decision, however, it can also lead to *ambiguity*, slow decision processes and conflicts which, in this situation, result in pressure on the subsidiary manager. Often, to overcome this problem, a matrix structure is accompanied by decentralisation of decision power to lower levels in the hierarchy. Advantages and disadvantages of the matrix are also listed in Table 9.4.

Table 9.4

Strengths and Weaknesses of a Global Matrix Structure

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>◆ provides access to advantages of the other organisational structures</li> <li>◆ combination of two or more areas of expertise</li> <li>◆ good knowledge transfer throughout the organisation</li> <li>◆ simultaneous consideration of product, region and/or function</li> <li>◆ better allocation of resources due to forced consideration of multiple aspects simultaneously</li> <li>◆ good opportunity to decentralise the decision process</li> </ul>	<ul style="list-style-type: none"> <li>◆ complex and costly</li> <li>◆ high requirements for information and communication behaviour</li> <li>◆ high requirements for cooperative behaviour</li> <li>◆ potential ambiguity of orders</li> <li>◆ decisions may take longer, often extensive meeting culture</li> <li>◆ risk of power struggles</li> <li>◆ appropriate for firms with many products and unstable environments</li> </ul>

Source: Adapted from Zentes/Swoboda/Morschett 2004, p. 783; Griffin/Pustay 2010, pp. 422-423.

### Internal and External Complexity

In particular, in dynamic and heterogeneous industries, a multi-dimensional organisation might be well suited to respond to the *external complexity* (Bartlett/Ghoshal/Beamish 2008, p. 449). On the other hand, the problems of the internal complexity are not worth tackling in the case of rather stable markets and rather homogeneous products (Griffin/Pustay 2010, p. 423).

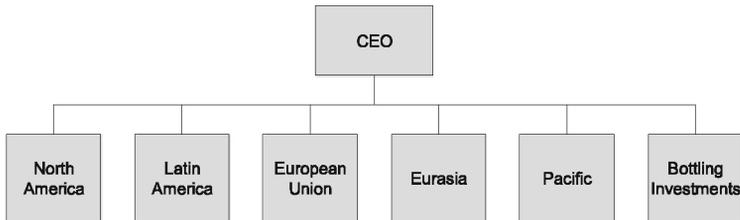
### Hybrid Global Structures

#### Mix of Other Structural Types

Companies with hybrid global structures do not apply the “ideal types” or pure types of structures that have been described above, but *mix elements of*

*different pure types.* For example, a company might decide to organise around products but one specific product might be so important that the company divides the responsibility for this product among three regional managers. Another example is given in Figure 9.5.

### Hybrid Organisation at Coca-Cola



Source: Coca-Cola 2010.

Most MNCs are likely to use – to some degree – hybrid structures and blend elements of all the structures discussed (Griffin/Pustay 2010, p. 423). The advantages of this mix are that companies can differentiate between those elements of their business that need *differentiation* while they can combine and integrate the dimensions that are better suited for *common leadership*. Since these dimensions are often not uniform across all products, functions and/or regions (or customers), a differentiated, hybrid approach might be more suitable. Taking the example of the *Coca-Cola Group*, obviously different geographic areas should be treated differently (and unified within) for most of the business. However, in addition, the organisational unit “bottling investments” is managing all of the company’s consolidated bottling investments to drive growth and improve operating performance in this field across all markets in which *Coca-Cola* owns fully or partly the bottling operations. So these operations should be treated uniformly across the world – with the responsibility for it worldwide given to one division of the *Coca-Cola Group*.

*Hybrid  
Structures  
Widely Used*

### Structure follows Strategy

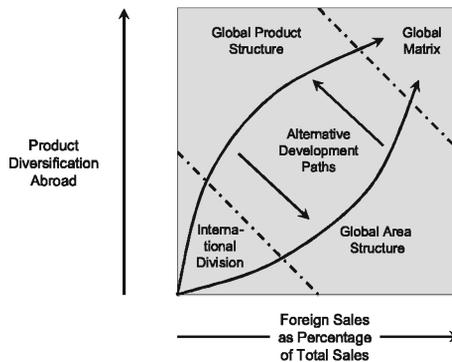
As the descriptions of the different organisational structure types have shown, different structures are more or less adequate for certain MNCs. Based on studies by Chandler (1962), it was proposed that *structure follows*

*strategy*. In this perspective, organisational structure is seen as a mechanism to implement a certain strategy. And since each strategy has specific requirements, the choice of an organisational structure must be adapted to these requirements to maximise the success of the respective strategy.

Well-known studies on organisational structure, many of them from the late 1960s and early 1970s, investigated the structure-strategy relationship. The best-known of these studies, by Stopford and Wells (1972), empirically showed a relationship between different elements of the international strategy of the MNC (the degree of international diversification and the percentage of foreign sales) and the likelihood of certain organisational structures (see Figure 9.6).

Figure 9.6

The Stages Model of Stopford and Wells



Source: Adapted from Stopford/Wells 1972, p. 65.

### Strategic Choice

However, the statement that “structure follows strategy” has been criticised for being *too simplistic*. First, it seems to be too deterministic. In reality, companies have some *degree of choice* which organisational structure they want to implement and the strategy does not force the MNC to choose one particular structure. Furthermore, a certain organisational structure also influences resource allocation in the company, as well as company objectives and decision processes within the company. Thus, the strategy process is also influenced by the organisational structure, and sometimes “*strategy follows structure*”.

In a *contingency perspective*, companies have to align their strategies to the external environment, e.g. the industry requirements, and, as has been discussed above, differences in the external environment (e.g. between regions) might imply certain organisational structures. Thus, some recent literature argues that there is no unidirectional influence of strategy on structure or vice versa but that corporate strategy and corporate structure have to be aligned to each other with existing degrees of freedom, and corporate strategy and corporate structure both have to *fit* to the external environment.

Furthermore, different organisational structures have different information processing capacities and since different MNC strategies result in different information processing requirements, different organisational structures might also be argued from the information perspective (the *information processing approach* is explained in Chapter 8).

### Dynamic of Structures

Studies on organisational structure often identify *patterns of development* (see, e.g., Figure 9.6). In an *evolutionary perspective*, companies may change their structure over time, for instance, as a consequence of learning. While MNCs develop and grow, they might have to change their structure. As has been shown in this Chapter, early internationalisation is often implemented with an international division while the growing importance of international activities might lead to globally integrated structures.

Even a mature MNC must make structural changes from time to time, such as to facilitate changes in strategy. For example, if the company changes its strategy from global standardisation to regionalisation, an adequate organisational structure (e.g. a global area structure) strongly supports the implementation of the new strategy (Deresky 2008, p. 266). Thus, following the *structure-follows-strategy thesis*, MNCs might adapt their structure when they change their strategy.

However, the simple patterns proposed by Stopford/Wells are often seen as too simplistic and deterministic, and more recent studies have identified development paths from “simpler” types of organisations to more complex ones and vice versa (Buckley 1996, p. 43; Wolf 2000, p. 349). Changes in the external environment might be another reason for structure switches.

### Conclusion and Outlook

Organisational structures are an important *mechanism to coordinate* the international activities of a company. While it has been mentioned that the “*anat-*

*Fit between  
Strategy, Context  
and Structure*

omy" of the organisation is not sufficient as a coordination mechanism, it is undoubtedly a necessary component.

The adequateness of certain organisational structures for certain MNC strategies and particular businesses has been discussed in this Chapter. In a dynamic perspective, it becomes evident that the choice of a structure is complex and deterministic selection models tend to oversimplify the problem. Generally, however, a *fit between strategy, context and structure* is seen to be necessary to exploit fully the potential of a strategy.

While switches between organisational structures are a very common element of strategic change in organisations, a uniform trend cannot be identified. Some authors observe a trend away from globalisation to regionalisation. As a consequence of this trend, global area structures seem to emerge more often, but within regions, differences often seem rather small. Thus, companies with regional structures often seem to integrate their activities across a larger group of countries. For example, the consumer goods manufacturers like *Unilever* or *Procter & Gamble* nowadays often combine all their activities in the German-speaking countries – Germany, Austria and Switzerland – into one organisational unit. Similarly, operations in a number of Asian regions or in Latin America are more and more often bundled into one organisational unit.

### Further Reading

WESTNEY, D.; ZAHEER, S. (2001): The Multinational Enterprise as an Organization, in: RUGMAN, A.; BREWER, T. (Eds.): *Oxford Handbook of International Business*, Oxford, Oxford University Press, pp. 349-379.

WOLF, J.; EGELHOFF, W. (2001): Strategy and Structure: Extending the Theory and Integrating the Research on National and International Firms, in: *Schmalenbach Business Review*, Vol. 53, April, pp. 117-139.

## Case Study: Deutsche Post DHL<sup>1</sup>

### Profile, History and Status Quo

Founded in 1950 as a government agency, *Deutsche Bundespost* was initially responsible for national and international postal and telecommunication

<sup>1</sup> Sources used for this case study include the web site [www.dpwn.de](http://www.dpwn.de), various annual and company reports as well as explicitly cited sources.

services, and operated for nearly 40 years as a state-owned monopoly. A law that came into effect on 1 July 1989 concerning the structure of the organisation and of post and telecommunications, however, initiated a tremendous change in the organisational structure of the company and resulted in the separation of *Deutsche Bundespost* into three sectors:

- *Deutsche Bundespost Postdienst* (postal services)
- *Deutsche Bundespost Postbank* (financial services)
- *Deutsche Bundespost Telekom* (telecommunication services).

In the following years the loss-making company entered a period of consolidation, rationalisation and restructuring. The successful turnaround was accompanied by the incorporation of the East German postal service in 1990.

In 1995 the three companies that emerged from *Deutsche Bundespost* were converted into private stock companies under private law and *Deutsche Bundespost Postdienst* changed its name to *Deutsche Post*. Although the federal government initially retained all shares, they were gradually offered for sale to private shareholders, with the federal government retaining the majority stake for at least five years. The federal post and telecommunications agency was founded at the same time to represent the government's interests as a shareholder in the three stock corporations and to perform supervision as well as coordination tasks.

From 1997, when a new statute was passed to introduce greater competition into the German postal market and after successfully restructuring its domestic operations, *Deutsche Post* started a period of extensive international expansion with the aim of becoming the leading global provider of express and logistics services. Starting with an establishing presence in Europe, the internationalisation strategy also included the acquisition of some key players in the international transport and logistics market, namely: *DHL* (initial purchase of 25 % share in 1998, full acquisition in 2002), *Global Mail* (1998), and *Danzas* (1999).

On 20 November 2000 *Deutsche Post* finally went public and an initial share of 29 % of the capital was sold. The initial public offering (IPO) of *Deutsche Post* was the largest of that year in Germany and the third largest in the world. In the run-up to the IPO, in response to the rapid internationalisation process and the evolution into a global player, *Deutsche Post* decided to change its name to *Deutsche Post World Net*. Furthermore, in 2003 *Deutsche Post World Net* bundled its entire express and logistics business under the internationally renowned brand, *DHL*. The consolidation of the worldwide parcel and logistics business under the *DHL* brand was the result of the company's global "one stop shopping" concept, offering the whole range of services from a single source.

*Rapid Internationalisation*

*From Deutsche Post to Deutsche Post World Net*

Name Change to  
*Deutsche Post*  
DHL

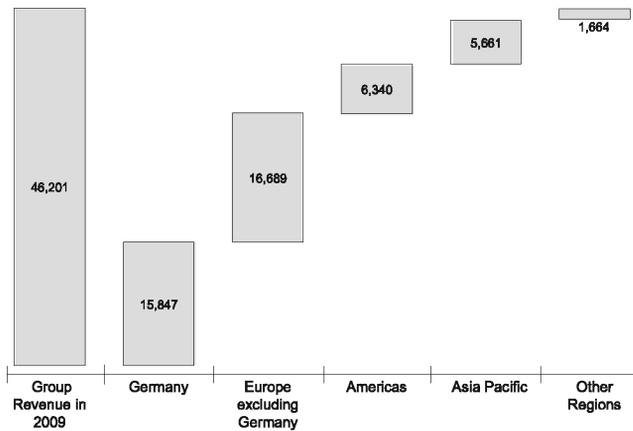
The World's  
Largest Logistics  
Company

In March 2009, Frank Appelt, the newly appointed CEO of the company, unveiled his *Strategy 2015* "aimed at making the company fit for the future". The presentation of the strategy was accompanied by another change of name to *Deutsche Post DHL (DPDHL)*.

With a total revenue of about 46.2 billion EUR and more than 436,000 employees in more than 220 countries and territories by the end of 2009, *Deutsche Post DHL* is the world's leading mail and logistics services group. To further illustrate the international scope of the company, Figure 9.7 reveals the worldwide revenue distribution by regions.

Figure 9.7

Revenue Distribution by Regions (in million EUR)



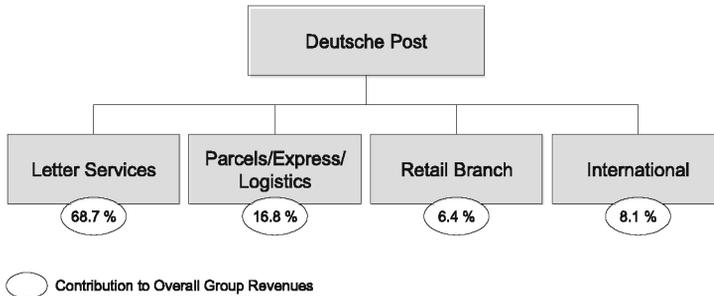
Source: DPDHL 2010, p. 130.

## Organisational Structure of Deutsche Post DHL in 1998

In 1998, *Deutsche Post DHL* (still operating as *Deutsche Post* at that time) undertook two of its most important acquisitions, namely *DHL* and *Global Mail*. Until that time, the business of the company had been focussed on the German market and solely relied on the *Deutsche Post* brand. The organisational structure of the company reflected the minor importance of foreign operations as *Deutsche Post DHL* bundled all of its foreign activities in an independently operating international division (Figure 9.8).

## Company Structure as of 1998

Figure 9.8



Source: Adapted from DPWN 1999, pp. 19-53.

In 1998, *Deutsche PostDHL* was heavily dependent on the domestic letter services division which accounted for 68.7 % of the group's total revenue. The international division only contributed 8.1 % to the group's revenue. In contrast, in 2009 the company realised more than 65 % of its revenues outside Germany.

The international division served the global letter mail, parcel mail and logistics market. Internally, the international division followed a product structure and distinguished between four major product lines:

- The *international mail service* unit developed services for international letter mail business customers and marketed the company's letter products worldwide.
- The *international parcel post* unit included a Europe-wide parcel mail service for business customers.
- The *international postal service* unit offered products and services to help domestic and foreign companies enter international markets. The product range included services that extend from direct marketing campaigns, order management, filling orders, and dispatch management to receivables, returns, and complaints management.
- *Deutsche Post Consult International GmbH* offered consulting services and assistance in the launch and continued development of postal services. Parallel to these activities, the unit also explored and developed international postal markets by preparing and implementing strategic cooperation agreements, management contracts, and joint ventures.

### Scope of the International Division

*Structure  
Follows  
Strategy*

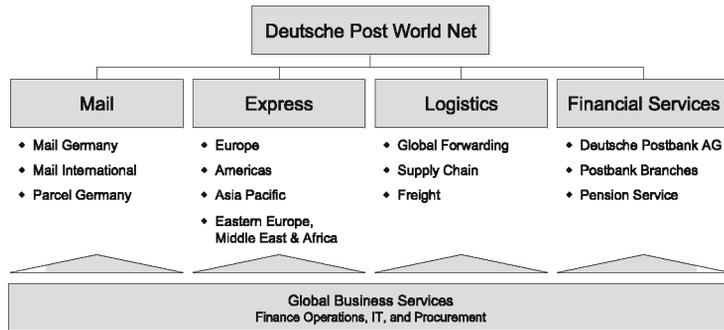
The equity investment and subsequent cooperative agreement with *DHL* enabled the company to consolidate its position in the express mail service. Moreover, the acquisition of *Global Mail* equipped the company with a bridgehead in the USA for serving international letter mail business customers. However, consequent to the “structure follows strategy” thesis by Chandler (1962), the expansion strategy of *Deutsche Post DHL*, necessitated some major adjustments to the organisational structure.

### Organisational Structure of Deutsche Post DHL until 2008

As the relevance of foreign activities rose sharply due to the international expansion of the company in the late 1990s, *Deutsche Post DHL* (operating as *Deutsche Post World Net* at that time), combined domestic and foreign operations. In order to enhance knowledge flows and to achieve synergy effects between the international and the domestic business, the company has implemented an integrated product structure.

Figure 9.9

Company Structure until 2008



Source: Adapted from DPWN 2008, p. 22.

As depicted in Figure 9.9, *Deutsche Post World Net* operated with four divisions: mail, express, logistics, and financial services, which constituted a global product structure. Each division was controlled by its own divisional headquarters and supported by a global business services unit. Internal services included finance operations, IT, and procurement.

- The *mail division* has comprised the mail and parcel transport business in Germany as well as the international mail business. While the German mail business has operated under the *Deutsche Post* brand, the international mail and German parcel business apply the *DHL* brand. The division further serves as an expert provider in direct marketing as well as newspaper and magazine distribution. The segment also offers mail and communication services through direct links to more than 140 countries across the globe, and end-to-end corporate communication solutions.
- The *express corporate division* has included *Deutsche Post World Net's* national and international courier, express, and parcel activities under the *DHL* brand. The company has drawn on the world's most extensive network, embracing 220 countries and territories. The business is structured according to the regions in which the company is operating.
- The company has ranked among the world's leading providers of air and ocean freight, contract logistics and overland freight transport in Europe. The mentioned services were summarised in the *logistics division* that operated under the *DHL* brand.
- The *financial services division* chiefly consisted of *Deutsche Postbank Group* activities. *Deutsche Postbank Group* offered a wide range of standardised banking services, including payments, deposits, retail and corporate banking, fund products and investment securities services.

The global product structure is most suitable for companies with very heterogeneous product lines that are characterised by diverse technological requirements. In the case of *Deutsche Post World Net*, the mail, express and logistics division were comparable in their nature as they all constituted logistical services. Consequently, these divisions had similar requirements in terms of competencies (e.g. coordination and networking skills) and resources (e.g. a sophisticated delivery network). However, technological and structural differences existed, for instance, in terms of product size and structure (e.g. letter mail vs. parcel). The fourth operative division, financial services, represented the "outsider" in the organisational structure of the company, as banking has almost nothing in common with logistical services in terms of competences and resources. Hence, knowledge exchange or coordination between the financial service division and the other three product divisions was not essential for the success of the group. The limited link of *Postbank* with the core business of the company, as well as the write-down on *Postbank's* exposure to *Lehman Brothers* investment bank, motivated the company to rethink its financial services division and to gradually withdraw from the banking business by selling a minority interest of *Postbank* to *Deutsche Bank* in January 2009. Consequently, this strategic move led to another reorganisation of the group and the development of *Strategy 2015*.

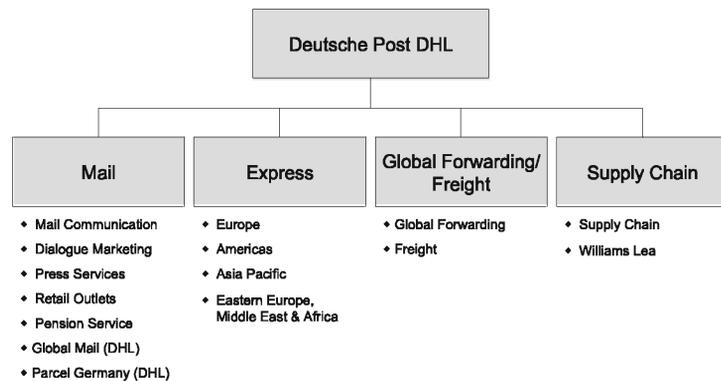
### Global Product Structure

## The Impact of Strategy 2015 onto the Organisational Structure of Deutsche Post DHL

The new group strategy, that was accompanied by the company's decision to not longer offer domestic air and ground products in the USA, comprises in essence a structure focused on the *Deutsche Post* and *DHL* brands and a tighter interlinking of the DHL divisions. Figure 9.10 illustrates the current organisational structure of the company.

Figure 9.10

Company Structure as Result of Strategy 2015



Source: Adapted from DPDHL 2010.

As depicted in Figure 9.10, the company still operates a global product structure with four divisions. Compared to 2008, the tasks and structure of the *Mail* and *Express* divisions remained unchanged. However, the company replaced the *logistics* and *financial services* divisions by *Global Forwarding/Freight* and *Supply Chain*. Both divisions are operating under the DHL brand.

- The *Global Forwarding/Freight* division consists of the respective business units *Global Forwarding* and *Freight*. The *Global Forwarding* business unit is the industry leader in air and ocean freight. The *Freight* business unit is the second-largest overland freight forwarder in Europe and the Middle East.
- The *Supply Chain* division includes the *Supply Chain* business unit which provides services along the entire supply chain. This includes warehousing, distribution as well as managed transport. The *Williams Lea* business

unit is an outsourcing partner and offers corporate information management services. Solutions include office document solutions, marketing solutions and customer correspondence management

Table 9.5 summarises the financial performance of the *Deutsche Post DHL* divisions for the year 2009.

*Financial Performance of DPDHL Divisions in 2009*

*Table 9.5*

Year 2009	Mail	Express	Global Forwarding Freight	Supply Chain
Revenue (in million EUR)	13,502	10,008	10,257	12,362
Revenue development compared to 2008	-4.82 %	-24.09 %	-23.76 %	-8.78 %
EBIT (in million EUR)	1,383	-807	191	-208
Employees	146,021	99,494	40,254	136,135
Brands	Deutsche Post/DHL	DHL	DHL	DHL

Source: DPDHL 2010, p. 130.

## Summary and Outlook

*Deutsche Post DHL* has moved far beyond its origins as a mere mail-carrying and delivery company. *Deutsche Post DHL* has evolved into a provider of end-to-end services at every link in the logistics value chain. As presented in this case study, this transformation process was inevitably accompanied by major organisational changes. Hence, *Deutsche Post DHL* is a sound example of the principle that even established market leaders have to constantly reassess their structures in order to stay on top.

## Questions

1. With the start of its international expansion in 1997/1998, *Deutsche Post DHL* faced some crucial questions regarding the integration of the acquired companies and the overall coordination of the growing enterprise. One initiative of the company to cope with the situation in Europe was the so called "*Euro Express Network*". How did the network change the structure and the competitive position of the company?
2. The express division of *Deutsche Post DHL* is segmented into different regions (Figure 9.10). What are important advantages and disadvantages for *Deutsche Post DHL* that result from this organisational structure.

3. *Deutsche Post DHL* changed its organisational structure frequently from 1998 to 2009. What are potential problems that can accompany organisational changes of this kind?

### Hints

1. The homepage of the company ([www.dp-dhl.com](http://www.dp-dhl.com)) may serve as a first source of information about the network.
2. See Table 9.3 for a collection of potential advantages and disadvantages.
3. See, for instance, Folger and Skarlicki 1999, pp. 35-50.