



Structure and Strategies of Multinational Enterprises in Nigeria

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Abstract

This study sought to examine the effect of organization structure on organization strategy. Survey research design was employed through the administration of structured questionnaire to staff of Nestle Nigeria PLC, Unilever Nigeria PLC and PZ (Cussons) PLC. The findings revealed that, organization structure positively and significantly affects strategy implementation (F stat 107.52* 0.000) and that organization structure account for 53% (Adjusted $R^2= 0.5312$) variation in organization strategy. It can therefore be concluded that, organization structure plays a significant role in strategy formulation and implementation in Nigeria multinational enterprises. It could be seen that, global matrix structure and product division structure are the most critical elements of organization structure driving strategy implementation in a multinational firm. It is therefore recommended that, multinational firms in Nigeria should employ matrix structure towards the enhancement of their organization strategy. This is because matrix structure has the highest effect on organization strategy.

Keywords: Matrix Structure, Product Division Structure, Area Division Structure, Organization Structure, Organization Strategy



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I. Introduction

The advent of multinational enterprises (MNEs) can be traced to the colonial era. It was first set up to systematize colonial expeditions by facilitating exploration, sourcing of raw materials and the creation of market to facilitate international trade. In Nigeria, MNEs' entry into the market was noticeable by its policies of imperialism and colonialism, MNEs came into being in Nigeria after the abolition of slave trade, and this was necessitated by the need to sale surplus European and American products and a place to obtain cheap raw materials for their industries. They dominated Nigeria's business environment during the colonial era and even after independence. Today, MNEs still control a significant percentage of Nigeria economy.

The concept of structures and strategy of MNEs has developed considerably (Adler, 1997; Bartlett & Ghoshal, 1998; 2012). The enhancement of production line and engagement in global activities by firms, propel MNEs to come up with organization structure and strategy that is suitable for the attainment of their organizational goals. Scholars, such as: Lekkerkerk (2015); Raluca (2015); Miozsoa, Yamin & Ghauri (2012) and Heather (2009) in their various studies revealed how organizational strategy influences organizational structure. They opined that, strategy formulated and implemented by firms determines their organizational structure.

However, Chitale, Mohanty and Dubey (2013) as well as Webster (1997) posit that organization structure plays an important role in the successful implementation of organizational strategies. Webster (1997) further posits that, the appropriate organizing of activities in an organization reduces the challenges managers have to confront during the process of implementing strategies in the face of turbulent global operating environment. Scholars have conducted several empirical studies on the relationship between structure and strategy implementation (Al-Atwi, 2014; Chitale et al., 2013; Wheelen & Hunger, 2006; Brickley, Smith, Zimmerman, & Willett, 2002; David, 2001). David (2001) emphasizes that, a clearly defined structure is essential in the implementation of organizational strategies. Furthermore, Wheelen and Hunger (2006) opine that organizational structure plays an influential and strategic role in the successful implementation of organizational strategies.

In Nigeria, the effect of organizational structure on strategy implementation appears not to have been

fully examined. Studies examining the effect of organizational structure on strategy implementation of MNEs in Nigeria are sparse. In addressing this research gap, this study seeks to examine the extent to which organizational structure significantly affects strategy implementation of MNEs in Nigeria. The specific objectives are to explore how matrix structure significantly affects the strategy of multinational enterprises in Nigeria, determine the effect of Product division structure on the strategy of multinational enterprises in Nigeria, evaluate the influence of division structure on the strategy of multinational enterprises in Nigeria and examine the effect of the combined organizational structure elements on the strategy of multinational enterprises in Nigeria.

The study will answer the following research questions: To what extent does matrix structure significantly affects the strategy of multinational enterprises in Nigeria? To what degree does product division structure significantly affects the strategy of multinational enterprises in Nigeria? Does area division structure significantly affects the strategy of multinational enterprises in Nigeria? What is the effect of the combined organization structure elements on the strategy of multinational enterprises in Nigeria?

This research was divided into five sections. Section one introduces the subject matter, while section two presents a review of literature. Section three presents the research methodology employed for the study. Section four presents the research findings and discussion of the findings. Section five provides the conclusion of the study.

II. Literature Review

Strategy can be perceived as a creation associated with military tactics to defeat the enemies. The concept was adapted to the business world to gain competitive advantage over competitors and to attain organizational goals (Mainardes, Joao, Ferreira & Raposo, 2014). Considering the context of multinational enterprises (MNE), that is characterized by formulating and implementing strategies that will be operational across national boundaries. Ansoff (1990) define strategy as a set of rules or guidelines that aid decision making, which usually incorporate international business activities. Strategy tends to influence MNEs growth rate and complexity in terms of policies, tactics, goals and programs among others.

The concept of structure emanates in ancient times. It was developed by organizational theorist, who noted that structure is a function of strategy and that strategy is equally a function of structure, which is influenced by the business environment that the firm operates in. However, multinational firms experience more organizational challenges than firms operating in their domestic market due to the global nature of their organizational structure, such as area division structure, product division structure and matrix structure among other organizational structures. Structure focuses on how different organizational schedule in the form of responsibilities, productive tasks or processes are allocated, directed and supervised towards achieving overall organizational goals (Raluca, 2015), It could also

be noticed that, structure influences MNEs' activities in two ways:

It determines the type of individual or personality to participate in the decision making process and operation of MNEs.

It establishes the basis for operational process and procedure.

Blackwell (1997) identified five organizational structures of MNEs: International division structure, products division structure, area division structure, matrix or mixed structure and worldwide functional structure. Product division structure refers to an organizational structure that assigns operational responsibilities to managers handling some range of products. It is more common in MNEs that strive to enhance their competitive advantage through innovativeness in their manufacturing techniques.

Area division structure refers to a structure that assigns operational responsibilities to managers covering a particular geographical area. Product division structure involves organization structure that allocates responsibility along product line. On the other hand, matrix or mixed structure refers to an organizational structure that emphasizes efficiency in production, organizational learning and local responsiveness. It is a combination of product division structure, area division structure as well as other organizational structures.

Structure and Strategy

Strategy is a plan of action on how firms set out to use their major resources towards specific goals. In addition, structure is a way subsidiaries as well as departments within the organization fit together internally towards the attainment of organization goals. Strategy and structure are interwoven. Though, firms' uses structure to highlight hierarchy, assign schedules or operation to personnel towards long term sustainable growth. MNEs naturally assess both internal and external environments in order to determine the nature of strategy and structure to adopt amid competition and pressure. However, when MNEs strategy is in place, structure becomes clearer (Al-Atwi, 2014).

Al-Atwi (2014) opines that, strategy follows structure and the structure follows strategy dynamically. Lekkerkert (2015) asserts that, strategy proclaims structure which aid competitiveness and targeted customer base. Numerous empirical studies on structures and strategy of MNEs reveal issues of strategic orientation among scholars and managers to include governance, business process and practices, culture, value creation, market, information technology alignment and environment scanning to identify opportunity and availability of resources.

Chitale, Mohanty and Dubey (2013) posit that, organizational structure is an important determinant in strategy implementation. Wheelen and Hunger (2006) opine that, organizational structure plays an influential and strategic role in the successful implementation of organizational strategies. Scholars have conducted several empirical studies on the relationship between structure and strategy implementation (Ali-Atwi, 2014; Chitale et al., 2013; Wheelen & Hunger, 2006; Brickley, Smith, Zimmerman, & Willett, 2002; David, 2001). David (2001) emphasizes that a, clearly defined structure is essential in the implementation of organizational strategies. In contrast, Scholars, such as: Lekkerkert (2015); Raluca (2015); Miozsoa, Yamin & Ghauri,

(2012) and Heather (2009) in their various studies revealed how organizational strategy influences organizational structure. They opined that, strategy formulated and implemented by firms determines their organizational structure.

Multinational Enterprises (MNEs)

Multinational enterprises are as old as the history of colonialism. They were first established to organize colonial expeditions by facilitating exploration and international trade. MNEs engage in foreign direct investment by controlling and managing production or sales of goods and services in different countries. Major features of MNEs include their large size and global activities centrally managed by the parents firm. Other characteristics include:

Facilitating export and import of goods and services

Embracing investment in foreign countries

Buying and selling licenses in foreign markets

Facilitating assembly of operations in foreign countries

Facilitating local production of foreign products

MNEs control and manage subsidiaries across national boundaries and operate in different national contexts (Heidenreich, 2012). Spero and Hart (1999) posit that, multinational firms are business enterprises that maintain foreign direct investments and also uphold value-added holdings in more than one country. An enterprise is not truly multinational if it only operates in overseas or acts as a contractor to foreign firms. A multinational firm propels capital, technology, managerial talent and marketing skills towards sustainable performance in foreign countries. Some MNEs in Nigeria are Cadbury, Nestle, Unilever, PZ, MTN, Standard Chartered Bank and Multichoice among others. MNEs boost host countries' assets, revenues, employment opportunities, transfer of technology as well as contribution to innovations and novelty. It can be noticed that, MNEs are criticized based on their emphasis on foreign earnings maximization for their parent firm and less emphasis on the developmental goal of the host countries.

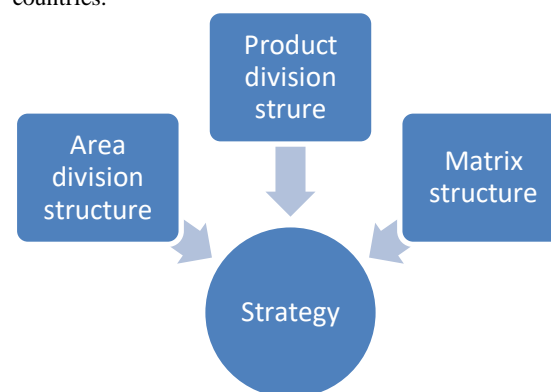


Figure 1: Conceptual Framework

Source: Authors

The conceptual framework indicates that, the three elements of organization structure employed for this study (product division structure, area division structure and matrix structure) affect strategy.

Theoretical Review

The two theories underpinning this study are the dynamic capabilities theory and the institutional theory. Dynamic capabilities theory postulates that, speedy product innovation and appropriate responsiveness to market fluctuations is the major determining factor for organization's success and those successful firms have the ability to effectively coordinate and redeploy internal and external competence. A dynamic capability is a source of competitive advantage over business rivals. Organizations develop definite competences to respond to market dynamics, which are related to firm's market position, business process, and opportunities. The theory posits that, firms' internal and external resources are both sources of dynamic capabilities (Kitenga & Thuo-Kuria, 2014). These internal and external resources are related to the firm's structure and strategic choice. MNEs usually develop internal and external competencies towards surmounting the business challenges in the host country.

The institutional theory focus on the host country's institutional environment (economic, political and socio-cultural institutions) vis a vis its similarity with the home country institutional environment (Brouthers & Hennart, 2007). It postulates that, the institutional environment of the host country vis a vis its similarity with the home country institutional environment determines the internationalization decisions of MNEs. Cui and Jiang (2012) opine that, the process of obtaining regulatory approval and the interaction between MNE and host country's institutions affect MNEs internationalization strategy. The combination of dynamic capabilities theory and institutional theory, which is the integration of internal and external competences of MNEs also include the organization structure and strategy, as well as the institutional environment of the host country, where the MNE is operating. This also tends to affect MNEs strategic decision and structure. For instance, if the institutional environment is not friendly, the MNE might use low capital entry strategy, like exportation, licensing and franchising, among others.

This study adapts the dynamic capabilities theory as well as the institutional theory, as these theories capture the internal and external resources of firms, which include a firm's structure and strategy. It equally considers the institutional environment of the host countries, which is an important consideration for multinational firms.

III. Methodology

This study employed survey research design in order to determine the effect of organization's structure on the organization strategy of multinational enterprises (MNEs) in Nigeria. This was done by administering a structured questionnaire to junior and senior management staff of Nestle Nigeria PLC, Unilever Nigeria PLC and PZ (Cussons) Nigeria PLC. The target population for this study was 401 junior and senior staff of Nestle Nigeria PLC, Unilever Nigeria PLC and PZ (Cussons) Nigeria PLC. A sample of 296 junior and senior management staff of the three MNEs was purposively selected. However, 283 questionnaires were returned. This brought the response rate to 95.61%. The research instrument (questionnaire) was rated using a 4 point Likert scale of

strongly disagree (1), disagree (2), agree (3) and strongly agree (4).

Some experts in the field of academics validated the instrument (questionnaire) and content validity index that is employed, through the independent assessment of six assessors. The instrument was assessed on two point scale (relevant and not relevant). Content validity index, which is the extent to which an instrument adequately samples the research domain of interest, was employed to ascertain the validity of the instrument. The content validity index is $(CVI) = n/N$, where CVI represents content validity index, n represents the number of questionnaire items rated as relevant and N represents the total number of questionnaire items. This provided a value of 0.8459, which implied that the instrument measured what it was designed to measure (validity). A pilot study through test-retest method was equally conducted to test the consistency (reliability) of the instruments with Pearson's product moment correlation coefficient, which provided a Cronbach's Alpha of 0.82. This indicated that the instrument is consistent (reliable). Ordinary least square (OLS) estimation technique was employed to test the regression model, with the aid of STATA version 12, at 5% level of significance.

Statement of Hypotheses

H01: Matrix structure does not significantly affect the strategy of multinational enterprises in Nigeria.

H02: Product division structure does not significantly affect the strategy of multinational enterprises in Nigeria.

H03: Area division structure does not significantly affect the strategy of multinational enterprises in Nigeria.

H04: Combine organization structure elements do not have significant effect on the strategy of multinational enterprises in Nigeria.

Model Specification

The model aggregates the elements of organizational structure. It is estimated to examine how these elements jointly affect the organizational strategy of multinational enterprises (MNEs) in Nigeria. The model addresses the main objective of the study, which is to examine the effect of organizational structure on the organization strategy of MNEs in Nigeria.

The model specification is stated below:

$$OS = f(MS, PDS, ADS) \text{ (i)}$$

$$OS = \beta_0 + \beta_1 MS_i + \beta_2 PDS_i + \beta_3 ADS_i + \mu_i \text{ (ii)}$$

Where:

OS represents organization strategy

β_0 is the constant term

$\beta_1, \beta_2, \beta_3$ are the coefficient of the estimator

$\beta_1, \beta_2, \beta_3 > 0$

MS= Matrix structure

PDS= Product division structure

ADS= Area division structure

μ is the error term

For the apriori expectation, it is expected that global matrix structure, product division structure and area division structure will all have positive effect on the

strategy of multinational enterprises in Nigeria; hence the parameters of matrix structure, product division structure and area division structure should all have a positive sign.

IV. Findings and Discussion

Table 1: Regress Strategy Product Division Structure Area Division Structure Global Matrix Structure

Product Structure	Division	.058401	.0256862	2.27	0.024	.0078376 .1089643
Area Division Structure		.0450257	.0409507	1.10	0.272	-.0355859 .1256373
Global Matrix Structure		.5346127	.0422928	12.64	0.000	.4513592 .6178661
_Cons		4.809104	.4993362	9.63	0.000	3.826159 5.792049
Source	SS	Ddf	MS	Number of Observation = 283		
Model	353.251631	3	117.750544	F(3,279)	= 107.52	
Residual	305.546955	279	1.09515038	Prob > F	= 0.0000	
Total	658.798587	282	2.3361652	R-Squared	= 0.5362	
				Adj R-Squared	= 0.5312	
				Root MSE	= 1.0465	
Strategy	Coef.	Std. Err.	t	P> t	[95% Coef. Interval]	

The results from Table 1 above revealed that, organization structure has a significant effect on organization strategy (F stat 107.52* 0.000). The results also revealed that, organization structure accounts for 53% (Adjusted R2= 0.5312) variation in organization strategy. The t-statistics indicated that, while product division structure and matrix structure positively and significantly affect organization strategy, area division structure does not significantly affect organization strategy. Matrix structure has the highest effect on strategy implementation, which might be because matrix structure combines features of area structure and product structure as well as other organizational structures. The findings further reveal that, assigning operational responsibilities to managers covering a particular geographical area as well as allocating responsibility along product line, which are features of matrix structure, tend to enhance strategy implementation.

V. Conclusion, Limitations and Recommendations for Future Studies

The study examines the effect of organization structure on organization strategy, by employing three out of five elements of organizational structure as identified by Blackwell (1997); product division structure, area division structure and matrix structure. The findings revealed that, organization structure positively and significantly affects organization strategy (F stat 107.52* 0.000) and that organization structure accounts for 53% (Adjusted R2= 0.5312) variation in organization strategy. However, out of the three elements of organization structure employed for this study, only product division structure and matrix structure positively and significantly affect organization strategy with t-statistics and p-value of 2.27 (0.024) and 12.64 (0.000) respectively, area division structure revealed an insignificant effect on organization strategy 1.10 (0.272).

The empirical findings of this study provide evidence that organization structure significantly affects strategy implementation. It can therefore be concluded that, organization structure plays a significant role in strategy formulation and implementation in multinational

firms in Nigeria. Specifically, the study concluded that matrix structure and product division structure are the most critical elements of organization structure driving organization strategy.

The study contributes to the sparse literature examining the effect of organization structure on strategy formulation and implementation of multinational manufacturing enterprises in Nigeria. The findings are consistent with the study by Ali-Atwi (2014). The study was conducted for multinational firms in Nigeria's manufacturing sector. Its' results might not be applicable to other local firms without international presence, as the structure of a local firm tends to differ from that of an international firm and the structure and strategy of a manufacturing firm tends to differ from that of a service firm. The findings might differ in other countries. Therefore, the conclusion and recommendations are limited to manufacturing multinational firms in Nigeria. The implication for practitioners is that matrix or mixed structure, which emphasizes efficiency in production, organizational learning and local responsiveness as well as combining product division structure, area division structure and other organizational structures are towards the enhancement of strategy implementation. Top executives of multinational manufacturing firms should employ matrix organization structure by assigning operational responsibilities to managers covering a particular geographical area as well as allocating responsibility along product line towards better strategy implementation.

Researchers in Nigeria should consider studying the relationship between structure and strategy of multinational firms in other sectors in Nigeria, like the telecommunication sector where almost all of the global service for mobile communication (GSM) providers are MNEs, or the banking sector that equally have so many MNEs or the oil and gas sector, that have high MNEs presence. This will help ascertain if the positive relationship between organization structure and strategy implementation found for this study is applicable to other sectors. Researchers across the globe can also consider the relationship between organization structure and strategy implementation in manufacturing MNEs in other climes, as this will help unravel the universal interaction between structure and strategy in manufacturing MNEs across the globe.

It is therefore recommended that, multinational manufacturing firms in Nigeria should employ global matrix structure towards the enhancement of its organization strategy. This is because matrix structure has the highest effect on organization strategy implementation. Product division structure can also be considered as it equally has a significant effect on organization strategy.

Further studies are required to develop new hypotheses, by considering other elements of organization structure. This is because, the three elements of organization structure employed for this study only account for 53% variation in organization strategy. Therefore, 47% variation in organization strategy is accounted for by other factors not captured by this study. Furthermore, other multinational firms in other sectors other than the manufacturing sector can be considered.

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