The Role of the Institutions in Organizational Knowledge Replication – Lesson from MNC Investing in Emerging Business Environment

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Abstract – The development of business activities in complex conditions of contemporary environment is a challenge for many companies using traditional strategies. It is partly due to the so called institutional voids. As a result, business models adjusted to mature market philosophy may require reconfiguration. An essential condition is identification of environment morphology which may turn out to be difficult for enterprises from outside a particular market. The purpose of this article is to determine the role of institutions in the replication of the organizational knowledge. Investing in emerging markets creates a perfect opportunity for deeper comprehension of interactions between organizations and the environment. In order to achieve the goal, the objective the results of our own research based on the case studies, were used. In the conclusions guidelines for dealing with businesses under uncertainty of the environment were formulated.

Keywords – organizational learning, emerging markets

I. Introduction

One of the dominant trends in contemporary economic reality is the increase in uncertainty resulting from the still rising complexity of the environment. The diffuse nature of the actions that are appropriate for the multinational enterprise (from this site MNC) exacerbates its consequences only further. One of the sources of complexity in the global economy is the growing number of links between markets that previously did not have direct interactions, and the increasing role of less transparent norms and values. All those circumstances makes prediction of the future based on past patterns difficult or impossible, as causal relationships blur in the network of interactions. North describes this phenomenon as a non-ergotic world (North, 2005). A system is emerging, the effectiveness of which depends on the unrecoverable internal and external events of the organization. Fundamental uncertainty of decisions taken under similar conditions is determined by decisions taken in the context of open changes. Events resulting from such decisions have the potential to transform the system, which is the element and / or transformation of oneself (Stacy, 1993). In the case of open and partially closed changes, the way to deal with the complexity and unpredictability of change is organizational learning (Rokita, 2011).

In contemporary economy enterprises may avail themselves of unprecedented possibilities for development on a worldwide scale, however, paradoxically greater autonomy in activities makes them more dependent on technology, collaboration network, social and material constraints. It may be anticipated that due to its relationship with the environment the system may undergo transformation in two ways, i.e. either on the way to growth of complexity or complexity reduction. This view corresponds to two strategies of dealing with the complexity of phenomena, i.e. complexity reduction and complexity absorption (Boisot and Child, 1999). The aim of the first one is convergence, the latter one is divergent in a distinct way (Tsoukas and Hatch, 2001, p. 981).

Complexity gives systems features which happen to be described as “the life of the system” (Capra, 2002). Living organisations are dependent on their environment not only within the scope of matter and energy but also knowledge and information. From the perspective of the research subject, emerging markets (EM) create an interesting „research laboratory” since one of the features of complex systems is the fact that the system itself as well as its components, or agents, constrain one another (in organised systems the system constrains agents, whereas, in chaotic systems there are no constraints). Therefore, on the one hand, on the basis of the theory of institutional economics, lack of intermediary institutions is considered “a disability” and it is interpreted as limitations for the transparency of processes which take place in the environment. Poorly secured transactions, communication and transparency may create opportunities for opportunistic behaviours of partners and it increases uncertainty (Khanna and Palepu, 1997). On the other hand, in the view of assumptions of complexity not only cannot it be reduced by nature, but it should be absorbed since in this way innovations which guarantee the existence of the system emerge. The results of studies that are presented in the content of this paper were to answer the following question, in particular. How organizations develop activities in complex environment on the bases of its past experience?

The studies on enterprises investing on EM create a perfect opportunity for deeper comprehension of interactions between organisations and environment. Traditional literature on international business was created on the basis of experiences from the so called developed markets. However, environments of western markets were shaped by a relatively similar philosophy of market economy which gave the basis to similar rules of competitive game, whereas the possibility to recognise the influence of institutions on social structures and behaviours is difficult or even impossible if all our cases are embedded in the same or very similar conditions (Scott, 2001, p. 146).

II. Behaviours of MNE in the Conditions of Emerging Markets

The choice of EM as an empirical context for the studies was justified by the specific feature of these markets, i.e. institutional voids. Institutional limitations are one of the criteria which classify markets as emerging ones. An EM is a market where advanced institutions supporting transactions between the buyer and the seller on the market, labour or capital market do not exist or function in an inefficient manner. According to this structural definition, emerging markets are placed on the continuum between totally dysfunctional markets and
Enterprises do not need to be doomed to passive adjustment but they may change their institutional environment through the development of strategic initiatives. In response to institutional framework, organisations decide for a number of strategic solutions which are the manifestation of their acquiescence, active affiliation or reluctance (Oliver, 1991). These theses give a wide scope for searching for ways of neutralising institutional voids. The ability to develop such initiatives happened to be identified with entrepreneurship and institutional entrepreneurs (DiMaggio, 1988). Institutional entrepreneurs are individuals who can unofficially lead interaction networks and in this very way antinomically organise support for innovation (Hargrave and Van De Ven, 2006; RaffaeUi and Glynn, 2015). Policy entrepreneurs were also similarly depicted in the literature of the subject (Kingdon, 1984) as well as reformist leaders (Goldfinch and Hart, 2003). Framework for leadership that enables the learning, creative and adaptive capacity of CAS in knowledge-producing organization is Complexity Leadership Theory (CTL) (Uhl-Bien, Ross and McKelvey, 2007; Uhl-Bien and Marion, 2009). This framework “seeks to foster CAS dynamics at the same time enabling control structures appropriate for coordinating formal organizations and producing outcomes appropriate to the vision and mission of the system. It seeks to integrate complexity dynamics and bureaucracy, enabling and coordinating, exploration and exploitation, CAS, and hierarchy, and informal emergence and top-down control” (Uhl-Bien, Ross and McKelvey, 2007, p. 304).

On the basis of behaviours of the enterprises regarding these institutional voids the types of operating approach to organizational learning may be concluded. Dominant activity of particular functions of the approach may suggest probable directions of development of the enterprises. It should be emphasised that only a short-term perspective may be considered here since when developing new spheres of value creation or pioneering new institutions, human exercise choice, judgement, and creativity (Ackof, 1972). That way in context that are fundamentally uncertain, they may initiate a transformation of the system of which they are part, as well as transforming themselves. Moreover, the perspective of entrepreneurship brings innovation and self-organisation to the lower level of the hierarchy making the entity more responsive to the environment as mutual understanding among employees is amplified during interaction (Kaufmann, 1993; Stacey, 2011; Karakas, 2009; Scott, 2004).

III. Research Method

The results presented in the article are a part of broader study on strategies of international enterprises in the conditions of emerging markets. Qualitative approach with the use of a descriptive study case were used for the preparation of the presented research project (Yin, 2009). The group of research entities included deliberately selected enterprises operating on the international scale. All the enterprises belong to the same industry of manufacturers of parts for mining machinery. The selection of entities operating within one branch
eliminates a possible influence of specific industrial institution on the results. Head offices and branches of five small and mid-sized international enterprises were selected as research units. It is justified by the fact that such enterprises lack resources giving market power understood in a traditional way (Hymer, 1976). The selection was supposed to ensure the best possible access to data. Chief executive officers of both enterprises and branches, as well as employees who had acquired knowledge regarded as significant from the perspective of the research problem constituted the elements of the research. In the course of conducting field research empirical data were collected with the use of structured personal interview and unstructured personal interview.

Below are the results which are most significant from the point of view of the subject of this paper and which were obtained on the way of comparing the cases according to strategic effectiveness (operationalised as a level of achieving strategic goals, and the results above the expectations were also taken into account).

IV. Findings and Analysis

The perspective of complexity made it possible to consider the issue of institutions of EM and learning of the organisation in the new context of institutional environment in one conceptual framework. Such conceptualisation, in particular, made it possible to take a closer look at the relations between the agent and the system and to notice possible patterns within this scope. Table 1 contains the synthetic summary of the obtained results of field research.

**SUMMARY OF THE RESULT OF THE RESEARCH – REPLICATION***

<table>
<thead>
<tr>
<th>Manifestations of learning in regulative domain</th>
<th>Manifestations of learning in normative domain</th>
<th>Manifestations of learning in cognitive domain</th>
</tr>
</thead>
<tbody>
<tr>
<td>[1] Italy [2] Malaysia – Own branch [3] 600/2800 [4] 128/323</td>
<td>- Duplication of standardised solutions (lack of adaptation); lack of such possibilities was simultaneously considered a serious constraint - Negotiations with local authorities within the scope of the conditions for investment in the region - Application of standardised indicators in all (internal) areas of activity (regardless of the shortcomings noticed)</td>
<td>- Preservation of quality as an absolute value - Local organisation culture identified as one of the main barriers of the activity - In the course of the study it was revealed that only one case of adaptation which was the initiative “on one’s own”, i.e. the department CEO’s “trick” implemented thanks to a great knowledge about procedures and personal relationship with board members</td>
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</table>

TABLE 1

In case of SME investing on EM the common elements were actions developed on the basis of applying in the greater scope of activity in a regulative domain of the environment. The observation is not surprising since each enterprise has its own legitimised system and is subject to (partially forcibly) the provisions of the law. It may be stated that each enterprise has its own orderly image. The differences observed between the investigated cases may seem to be more interesting. The most general conclusion that may be drawn from the analysis concerns two different ways of handling complexity. It becomes visible if we compare the cases of Companies Beta, Alfa and Gamma (i.e. the ones which conducted replication). Company Beta implemented practically whole adaptation on the basis of the regulative domain. The objectives and modus operandi were clear to all employees. The number of actions which corresponded to the characteristics of learning in normative and cognitive domain the was not high and they altogether aimed at levelling prospective influence of foreign market institutions, which could result in the change in the organisation. The way of configuration and development of the activity on the level of the whole enterprise and FDI unit corresponded to the image which is reinforced in classic literature on international business. It should be emphasized that it was the case of the largest company in the research sample. Company Beta reached its strategic goals to a satisfying extent (it belonged to the group of the largest companies on the international market within the scope of the activity selected for the study) by applying convergent strategy of handling the complexity of the EM environment.

**TABLE 1**
A similar approach did not prove to be successful in case of Company Gamma (which withdrew from the market). Company Alfa was regarded as efficient, however, in this case (on the contrary to Company Gamma) active actions in all three institutional domain were identified. Companies Gamma and Alfa are much smaller companies than Company Beta. Effective application of this strategy (convergence) requires appropriate market power. Reduction of complexity without appropriate market power (Hymer, 1976) (which in the investigated case was delivered by the accumulation of the capital) leads to strategic inefficiency. The observation may be summarised in the following way. The dominant role of learning on the bases of regulative domain leads to the reduction of complexity by the organisation.

Common for Companies Alfa and Gamma (and, at the same time, different in relation to Company Beta) was the fact that they did not have at their disposal traditional attributes of competitive advantage on the foreign market. It may suggest that lack of market power requires absorption of complexity (divergence). The cases in the research sample made it possible to notice various consequences of the absorption of complexity of the environment. Replication resulted in the fact that the ground for undertaking the action was first looked for in the scope appropriate for the regulative approach, whereas obstacles which would appear served as a call for action (in the normative domain) so that the existing “shortages” could be made up for in a creative manner (cognitive domain). The sequence therefore ran from the formal (legitimised system) to informal institutions (the shadow). Company Gamma withdrew from the market although it did not resign from their development plans. Nevertheless the company was considered ineffective. The observation may be generally summarised in the following way. The assumptions resulting from experience (replication) are first responsible for the selection of actions appropriate for either formal or informal institutions. Therefore experience shapes a cognitive filter which is close either to the categorisation model (framework precedes data) or sense-making framework (data precedes framework).

V. Summary

The application of the complexity theory in the sciences on organisation and management leads to reflection upon deeply rooted assumptions which are often accepted by the researchers in a silent way. The content of the paper was devoted to a detailed exploration of the nature of organizational learning behaviours and its impact on organizational performance in SME in turbulent environments. Such perception of the research ground was the result of the fact that majority of the most prominent literature in the field was developed on the basis of results of the studies conducted within large enterprises. EM, due to their characteristic features, additionally create a very attractive context of research.

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### TABLE 1

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<td>[1] Germany</td>
<td>Important decisions related to the local market consulted with other experienced companies from the home market</td>
<td></td>
</tr>
<tr>
<td>[2] China – JV</td>
<td>- All rules established at the headquarters</td>
<td></td>
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<tr>
<td>[3] 25/160</td>
<td>- Low level of resource engagement on the local market due to high risk</td>
<td></td>
</tr>
<tr>
<td>[4] 11/63</td>
<td>- Adaptation understood only through adjustment of the product, however, there is also a declaration about the lack of need for change due to technical standard which is higher in comparison with the local one (only one, very little modification of the product under the influence of local demands was identified)</td>
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<td></td>
<td>- Scope of adaptation recommended by JV partner was assessed as too large, as a result of which the company withdrew from the market</td>
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<td></td>
<td>- Sales present only on the local market, other tasks accumulated at the headquarters for their protection</td>
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<td></td>
<td>- Technical teams set up at the headquarters for the purposes of implementation of important projects (each time on the basis of the company’s CEO’s decision)</td>
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<td>- Relatively free communication within the company, restrictive rules of sharing information outside the company</td>
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<td></td>
<td>- Goals set “from above”, but employees may comment on them</td>
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<td></td>
<td>- Information about foreign markets gathered by the headquarters (also during annual meeting of the company’s representatives from all over the world)</td>
<td></td>
</tr>
</tbody>
</table>

[1] Country of origin
[2] Form of organisation of FDI – Location of selected FDI
[3] Number of employees (FDI / the whole company)
[4] Volume of turnover (FDI / company)

Own research

* Replication is understood here as a transfer of core products and/or the whole business models which were developed on other markets (Leonard-Barton, 1999).
The cases of enterprises investigated exemplify two ways how the organisation may handle environment complexity. The first one consists in the reduction of complexity (convergent type), which corresponds to MNE vision reinforced in the traditional literature in the field of international business. The other one consists in the complexity absorption (divergent type), whereas the cases of enterprises which successfully apply such approach are young, small enterprises, also from EM, and therefore lacking traditional bases for an advantage on a global scale. The foundations of their success in development of actions in the conditions of emerging environment helped to emphasize the perception of learning from the perspective of the complexity theory. The applied theoretical framework made it possible to put the obtained results of the study in a clear order. However to explain the identified relationships more fully, the feedback should be taken into consideration. In this context implementation of tasks of an legitimated (official) system, i.e. achievement of basic, current goals of the system in possibly most efficient way is based on negative feedback thanks to which status quo is obtained. Within its scope the nearest future of the system might be foreseen since it is characterised by regularity of behaviours, order and balance. The shadow of the system is characterised by greater and different dynamics which, to a large extent depends on people’s personality, their expectations and emotional states (Stacey, 2011). From this point of view, since learning on regulative domain is connected with the authorised system of the organisation, it may lead to the formation of more predictable trajectories of development than it is in case of adaptive and enabling leadership function. But on the other hand, unforeseen changes may appear to be very dramatic.

Footnotes

[1] Feedback is a circular proximate cause of connected elements where each element affects another one until the last one answers the first one, i.e. until the loop is closed (Capra, 1996). Feedback is a complex concept even when considered with reference to non-living systems. Negative feedback may balance the results of deviation which have the tendency to grow. Positive feedback develops when the system can no longer delete the deviation. Then it can be multiplied and lead to the so called escape (a kind of disintegration often observed in the physical world).

[2] The assumption about the functioning of the authorised system on the basis of the negative feedback shall be understood in relation to the assumed goals of the organisation. Again, it is a simplification which is to make the content presented clearer.

References


