

THE MANAGER AND THE ORGANIZATIONAL COMPLEXITY: AN IMPORTANT FACTOR IN THE PROCESS OF INTERNATIONALIZATION

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ABSTRACT

The internationalization processes of the firm require capabilities that differ from those that support local efforts. Accordingly, managers face special challenges when confronted with the possibility of going abroad. The purpose of this paper is to emphasize the importance of processes carried out by individuals in the deep internationalization and organizational complexity, and therefore the role of decision makers as fundamental actors for change and stability. The methodology is a literature review of articles from the International Business and Management field. The findings are that the social and economic impacts of internationalization efforts go well beyond the realm of the firm, therefore well rounded managers with global mindsets and social sensitivities have the ability to make decisions that work at many levels.

Key words: management, complexity, internationalization.

RESUMEN

El proceso de internacionalización de las compañías exige capacidades distintas de aquellas que sostienen los esfuerzos locales, por esta razón los gerentes enfrentan retos particulares cuando surge la posibilidad de salir a los mercados extranjeros. El objetivo del artículo es destacar la importancia de los procesos individuales en la profunda complejidad organizacional de la internacionalización, y por lo tanto el papel de los tomadores de decisiones como actores fundamentales para el cambio y la estabilidad. La metodología usada es una revisión bibliográfica de artículos del campo de los Negocios Internacionales y la Gerencia. Los resultados encontrados son que los impactos sociales y económicos de los esfuerzos de internacionalización van mucho más allá del ámbito de la empresa, y por lo tanto, administradores bien preparados con mentalidad global y sensibilidades sociales pueden tener la capacidad de tomar decisiones que funcionen a diferentes niveles.

Palabras clave: gerencia, complejidad, internacionalización.

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RESUMO

O processo de internacionalização das empresas precisa do recursos diferentes dos necessários para apoiar os esforços locais, portanto, os gestores enfrentam desafios únicos quando se trata a possibilidade de mercados estrangeiros. O objetivo deste trabalho é destacar a importância dos processos individuais na profunda complexidade organizacional de internacionalização, e, portanto, o papel de tomadores de decisão como atores-chave para a mudança e estabilidade. A metodologia utilizada é uma revisão da literatura de artigos na área de Negócios Internacionais e Gestão. As conclusões são de que os impactos sociais e econômicos de esforços de internacionalização vão muito além do âmbito da empresa, portanto, os gerentes bem treinados, com mentalidade global e sensibilidade social podem ter a capacidade de tomar decisões que trabalham em diferentes níveis.

Palavras-chave: gestão, complexidade, internacionalização.

JEL: F23, M16

INTRODUCTION

Institutional theory offers insights both to management and the organization. On the one hand, it helps understand the structures of the environment that constrain the decision making process of managers –one of the two boundaries to rationality, the other being cognitive limitations (Simon, 1957); and on the other it gives the necessary conceptual framework to explain how this constraints and rules work in the organization and what their implications are for their performance and configuration, bearing in mind that the feasibility and profitability of economic activities are determined partly by institutions (North, 1991). Multinational firms are social constructions that are built out of specific national institutional contexts that shape how they internationalize, consequently, in a context of “national business systems” and “divergent capitalisms” the diverse strategies and structures of the firm imply multiple possible “global firms” (Morgan, Kristensen & Whitley, 2003. p.1).

At the same time, on a recurring basis the importance of individual processes in the deep internationalization and organizational complexity is stressed; managers, stakeholders, and other agents determine the courses an organization can take through at a time and context. The decision maker must take into account the factors that de-

termine the level of complexity in the organization in order to manage it (Maznevski, et al, 2007), the interaction of these variables create a new way of management in which the leadership is highlighted as fundamental. Therefore, these agents should be seen not only as constrained by institutions but also shapers of them.

One of the ways in which institutions are shaped is groups structured organizational schemes governance (Aguilera & Yip, 2004), which significantly influence the internationalization strategies and should have importance in the analysis of organizations. To observe the way they structure the government schemes is fundamental to understanding the different preferences social and economic groups have while designing these various strategies.

Management decisions are also marked by ways in which the manager must make decisions in a structured and coherent manner, not a question of subjective criteria but rather a consistent method for carrying out the processes of internationalization. A path is constructed from management, from decision makers that directly affect the business direction and their insertion into international markets.

This document is a transversal look to the agents that make decisions and influence the processes of internationalization. The thread is then that indi-

vidual integrator and her role in internationalization organizational decisions. The document is structured to give an initial look at the organizational complexity and the managerial skills to deal with such complexity according to Maznevski, et al, (2007), then it is emphasized that it is not only a matter of individuals but of groups, according to the corporate governance approach of Aguilera and Yip, (2004), to finish with a clear example of how complex decisions and dilemmas that the manager confronts to make internationalization decisions are (Lam & White, 1999). Each section is intended to leave some theoretical questions open for further work, stating a purposeful path that can further deepen the study of organizational contexts.

MANAGEMENT IN A COMPLEX CONTEXT: INDIVIDUALS AND ORGANIZATIONS

Complexity is a sign of globalization. According to Hopper (2006):

when thinking about globalization we need to pay closer attention to how its numerous flows and processes are encountered and informed by different actors and agencies in a range of cultural, political and social contexts. The latter might be regional, national, local, religious, institutional, and so forth. As a result of this interplay between these different forces and groups within these different settings, we perhaps should not be surprised that complexity and heterogeneity are the recurring tendencies that emerge from living with globalization

In complex environments, managers must be clear on some variables that are important and even on characteristics of complexity, with the proper differences and according to the case contextualization. Maznevski, et al (2007), highlighted the diversity managers must address both inside and outside the organization, relevant examples being the diversity and quantity of human resources in the organization, the variety of organizational management systems, integrative general market perspectives, heterogeneous needs of customers,

different cultural values, stakeholders with different interests (shareholders, investors, customers, employees, regulators, etc.), different dynamics in the political, economic and legal frameworks, competition amongst different strategies. Competition based on diversity management is to handle situations with understanding of the phenomenon and the ability to build simple models to make effective decisions which minimize the adverse effects of complex environments and domestic situations the organization may have.

Another important factor is the interdependence in the global market, where everything is connected and the effects of a decision are quickly felt elsewhere. It is important to identify the networks to which we are connected, moreover to identify those most important in our value chain. The levels of interdependence reached in the global market involve major challenges. The competence of the manager is then given by the identification of interdependencies both within and outside the organization, which helps her anticipate situations that occur in the organization and recognize opportunities of network interconnection and interdependence that may be exploited.

Kogut (1993) states that firms are “social communities that specialize in the creation and internal transfer of knowledge”; the multinational corporation is born “not out of the failure of markets for the buying and selling of knowledge, but out of its superior efficiency as an organizational vehicle by which to transfer this knowledge across borders”. Knowledge, and information flows are then, fundamental for organizations with international perspectives. In organizations facing such complexity, we also note an increase in the volume of information available and exchanged, which leads to ambiguity. This challenge must be dealt with management tools, enabling clear information for decision making in environments where uncertainty and risk are key variables. In this regard, management should have the concept of clarity of

information and always have open and effective channels of communication; in a complex environment information is not only fast but also abundant and contradictory, and the manager must be able to identify how communication processes affect the organization. Information changes along with the complexity of the organization internal processes and external environment, and the constant state of change is a variable of non-negligible complexity. The constant change and flow of information and organizational situations forces the manager to be in situations where the basic competence to observe and be aware of change flows within and outside the organization is much needed. The solutions of today can be obsolete tomorrow (Maznevski, et al, 2007).

Clearly, all factors combine to make complexity a matter of paramount importance for management and organizational management. In short, Maznevski et al (2007) show how the aforementioned variables of complexity interact: Everything is different and nothing is stable, everything has a fast flow -Interdependence flows in changing directions; The future is not the continuation of the past -The breakpoints in the industrial sector, which alter the value proposition of each of them, occur more quickly. The variety of options could end the traditional decision-making process, since information often lacks clarity and is ambiguous. There are multiple interpretations of the same facts, depending on the perspective or cultural framework. You cannot assume that everyone sees things the same way, inside or outside the organization. Thus, interdependence, diversity and ambiguity in flux are all the building blocks of administrative complexity and explain why global companies are perceived as the most complex organizations in the world. (Maznevski, et al, 2007, p. 6)

There is then a new concept of management of organizations which in itself is complex. When facing complexity, management may change in the way it interacts with staff, in the way it makes decisions, in the way the market is perceived and

in the way opportunities are seized, here management skills must focus on the complex, from the moment of conception to which it is attached, woven and related. This requires a transdisciplinary approach of the different kinds of knowledge that converge in an organization. It is necessary to achieve effectively integrated teams that will transform the organizational structures of the traditional functional hierarchy into more dynamic schemes. To the extent that the organization internalizes this knowledge, it will be able to venture into areas not previously considered, even into uncharted territory. Some organizational simplification schemes are not adapted to the changing environment, though. Managers try to simplify operations, which is very ironic if we are to understand the organization as a dynamic system of complex traits.

How we respond to the complexity is not a question that has a single answer. Maznevski, et al (2007) list some factors to be taken into account by managers to respond to the complexity according to the needs and specific contexts of the organization, first of all the aims and values are essential to have a clear and complete view into the horizon towards which the organization should go not be lost on the way. Tautological as this may seem, however, it is important to have clarity on the path to achieve the stated goals; it is less likely for the firm to lose track if management always know where the organization is despite the enormous complexity that accomplishing an end entails. Another vital component is decentralized authority and processes, where it is worth noting that the identification of vital processes in the organization and the possibility there is to standardize can lead to advantages in ensuring proper operation of the processes. This should be a priority for global companies, since it is not about having "small islands" within the organization, but rather integrated structures that add value to the operations.

Another important factor is the early detection of unpredicted situations, this creates an attitude towards uncertainty with tools taken from control

systems, anticipate factors that may affect the organization, track contingencies and get used to have levels of predictability and concrete action plans to the environmental threats. Finally, leadership is essential to running a complex organization in which there are interdependencies and networks where each party reflects a different perspective on the whole. Effective leadership should encourage the initiative, creativity and skills of its employees; an important management objective is to engage the different parts of the organization network in the creation of value (Maznevski, et al, 2007).

Regular communication is the tool for the survival of leadership in complex organizations, but it should be much more involved in relating, that is, in interpreting the contexts and meanings and investing in relationships instead of communicating bare facts or spreading ultimatums. All this highlights the leader, the person who manages the complexity and must face the challenges it entails. Professional qualifications coupled with the aforementioned skills can create a path, an emerging way among the many possible within complexity, so that the approach of the individual (manager) is vital to meet organizational challenges.

The decision maker is a vital agent in organizational change. In our Colombian context it is important to consider the approach to knowledge and innovation (impact of education); management skills (management of complexity); values, leadership, guidance and decentralization dynamic processes (systemic); clarity on the concept of complexity (beyond fad management trends); vision of relationships and interdependencies (organizational and environments); understanding of markets and influential cultural frameworks; comprehensive structural views (economic, managerial, financial, sustainable, social, environmental, ethical / moral); cultural competences (from foreign languages to recognize the different processes in the contexts, customers in different markets, products, levels of uncertainty, among others); making the complex

simple via practical executions; investing in strengthening the work force (skills and roles).

CORPORATE GOVERNANCE AND MANAGEMENT STRUCTURE: ENABLERS WITHIN COMPLEXITY

Governance structures should be designed according to the complexity inherent in globalization. Aguilera & Yip (2004) show in their actors based model a people-oriented approach to influencing the direction of an organization. Clearly, stakeholders influence organizational behavior, either as drivers or as non-promoters and inhibitors of change. Examples can found in change-resistant employees with broad participation within the teams of the organization; in workers who act as a pressure groups or organizational change routers, even in shareholders.

Shareholders use their influence and clout according to their cultural backgrounds -which may or may not relate to the current CEO's management style, and that is contingent upon their country identities, the continuity of family values and principles and risk aversion, among other factors. Boards of directors are, therefore, key actors in the molding of corporate governance guidelines; the latter will be imprinted within their organizational bias, interests, attitudes towards global operations and the risk that they entail. Another important player is the government. Governments influence the markets in which the company has or plans to establish operations, having the role of setting regulating barriers or incentives for companies there. International trade policy preferences (e.g. protectionism, economic liberalism) are an important element to take into account when analyzing this actor because they can directly influence the development of the company. The importance of regulation lies not only in the aforementioned characteristics, but, as dramatically evidenced by the global financial crisis, the interaction of domestic regulatory systems has

significant international consequences (Farrell, & Newman, October 2010)

Aguilera & Yip (2004), conclude that the roles of each actor directly influence the organizational models taken by a firm to deal with globalization, their approach being that institutions can shape the organization in the context of globalization. The actors based institutional model suggests that in order to understand the strategies of globalization it is necessary to understand the dynamics of the various actors involved with the company. This brings us back to the individual's vision but expanding further into a much more complex vision of stakeholders, one that not only glances at the director or manager of the organization, but to other players that can positively or negatively influence the process of corporate globalization. The theoretical model of Aguilera & Yip (2004) has the potential to generate a comparative perspective between countries.

In business growth managers have a number of possibilities, and it is important to have significant support from the actors that can affect the strategies. Understanding of the institutional environment in which businesses operate at the national level is essential to align the various actors according to their interests and capabilities with the patterns of globalization. Largely, multinationals' behaviors described by Aguilera & Yip (2004) depend upon the attitudes of members towards the furthering of globalization, risk-taking, long-term willingness to change, profit maximizing and shareholder value, and neutrality toward national and domestic interests. One important factor is the claim that corporate governance systems can promote globalization and business competitiveness in the long term.

It is clear organizations adapt to their institutional environments, but in a MNC the answer is not so straightforward, since it operates in multiple institutional environments (Tempel, & Walgenbach, January 2007). Here, managers could be confronted with the issue of 'institutional duality' -when

within multinationals actors are pressured to conform to the expectations of their home context whilst also being subjected to the transfer of practices from the home context of the MNC itself. This institutional duality leads to 'micro-politics' conflicts. The head office managers transfer practices, people and resources to subsidiaries in order to maintain control and achieve their objectives. Local subsidiaries have differential capacities to resist these transfers or to develop them in their own interests depending on their institutional context. Accordingly, some institutional contexts produce 'Boy Scout' subsidiaries, whose obedience undermines locally distinctive capabilities, while others produce 'subversive strategists' which look to deepen their connection with the local context, not headquarters. In public companies, these processes are determined by the demands of capital markets which impose performance requirements on MNCs and lead to continuous organizational restructuring; making Headquarters more effective to impose standards in all their subsidiaries. As a result, except for a few pockets of 'subversive strategists', multinationals produce subsidiary 'clones' with little ability to leverage the specific assets which the institutional context provides, therefore diminishing innovation (Morgan & Kristensen, November 2006)

This makes corporate governance schemes important. When involving people in decision making activities, the firm should seek to establish mechanisms for coordination and management, and to work together on the road. To face the inherent complexity of the business processes of economic globalization, the involved actors must be clear on the processes and strategies of globalization in order to make the best. Furthermore, bearing in mind that a higher degree of internationalization will increase the complexity of the organization, governance structures must accommodate the resulting complexity with through different strategies, like higher, longer CEO pay, larger top management teams, and the separation of chairperson and CEO positions (Sanders & Carpenter, April 1998). There is, therefore, a renewed focus on the people who

make decisions inside the organization, an important point that cuts across this reflection.

DILEMMAS IN COMPLEXITY: THE ROUTES OF MANAGEMENT DECISIONS

Johanson and Vahlne describe the internationalization process of the firm as one that “focuses on the development of the individual firm, and particularly on its gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets” (1977).

In the same vein, Lam & White (1999) describe the stages of evolution of a company facing the challenge of globalization, the entry strategies that can be adopted gradually and progressively, and the different strategic and structural choices within the organization along with the decisions regarding human resources. Through this process a domestic firm becomes a multinational organization. It is highlighted that this takes a series of important strategic decisions, and it is not arbitrary or capricious process of a manager; it must obey all the decisional structure and understanding of the complexity of the environments in which it intends to enter. This can pose a number of dilemmas the manager, who must find her way into the complexity to consistently adapt within specific organizational strategies input from other environments and markets.

Returning to the role of manager and organizational decision makers raised by Lam & White (1999) there are a number of dilemmas that allow us to understand the complexity of decision making and the role of the manager in the processes of globalization. In the internationalization process, accordingly, there is a strategic dilemma which deals on how to compete in a global market; here are the choices between product standardization or adaptation; there is also a strategic dilemma which deals on how much commitment to have in new markets, here are the choices between sales and production; additionally, there is a structural

dilemma related to the organization of the company in its global operations, decisions are made here between the influence and location of subsidiaries and headquarters; Lastly, the dilemma of human resources is also relevant and relates to how employees are managed globally, here are the decisions regarding local or foreign, compensation and contractual variables.

DISCUSSION

Complexity cuts across the actions and performance of people and organizations, and managers, as rationally bounded decision makers, are influenced by institutions but are at the same time in a privileged position to shape institutions within the organization and to generate strategies to better cope with the increasing complexity of a company that faces increasing internationalization.

The multiple functions, areas and resources of the company can experience different levels of internationalization, which makes the firm a bundle of resources and activities where individual actors at all levels enjoy certain freedoms and range of actions, and where communication then becomes a major issue since conflicting flows of information can dim the judgment of decision makers, therefore, the structure of the organization must evolve along with complexity to cope with it, and to guarantee its own sustainability.

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