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Organization Narratives for Strategic Change

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DOCTORAL THESIS

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To Mom and Dad

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Introduction

This thesis examines the role of rhetoric and narratives in management. This topic is of vital importance because managers use narratives to give perspective and meaning to the events and goals of the organization (Bonet & Sauquet, 2010). Managers shape and change the symbols that constitute meanings of past events and they create narratives to form the future of the organization (Gabriel, 2000; Boje, 2001; Nadal-Burgues & Bonet 2016). Therefore, in addition to the functions of controlling, planning, and coordinating actions, the premise of this thesis is that deliberate engagement in rhetoric and the creation of compelling narratives is generally an important managerial function. When the organization is challenged with uncertainty and change, it is conceivable that this function attains critical importance.

Given this outline of the topic of the thesis, the broader objective of this research is to improve our understanding of the role of rhetoric and narratives in management practice. As rhetoric and narratives are typically invoked to create meaning in uncertain situations and to shape a possible path to the future, this broader objective will be subject to a detailed examination based on the following research questions. What is the role of narratives in uncertain conditions? How do narratives facilitate change projects?

1.1. A review of the concept of the Narratives

For long, stories and narratives have not been regarded as proper methods of research in social sciences, nor were they seen as an intellectual subject. They were considered a secondary genre, suited for folk tales and children entertainment. The first seeds of change in this perspective were planted by the works of Vladimir Propp (1895-1970), the Russian formalist, who introduced "The morphology of the folktale" (1928). An in-depth study of classes of events in stories, lead him to conclude that all marvellous tales are made of the same structure, i.e. classes of events following each other, with more superficial variations such as time, place, and characters, laid over the basic skeleton. To classify the basic elements of the structure, Popp moved from the specifics to the general through abstraction, introducing concepts such as absentation, which refers to the hero leaving their town/habitat. His contribution was well appreciated and, in the 1960es, this line of thought was pursued in the works of the French structuralist, Claude Levi-Strauss, as he examined the structure of myths worldwide and through history (1969). More recently, Hayden White, literary critic and historian, in his book "The Content of the Form" (1987) asserted that only through narratives could history have meaning. To illustrate this, he compared three historic forms of annals, chronicles, and tales/stories. Annals only report the year, plus the event. Chronicles report the years and the relation of events, and finally, stories use the structure of chronicles but have two distinct additions: first, the events in stories are organized in plots, and second, they have a narrative ending. The addition of these two attributes allows meaning to history. In other words, annals are not the way we think of history, since recording the year and an event does not mean much; however, narrative endings and plots enable histories to have meaning, and altering each element would change the meaning of the whole.

Creation of meaning points at the importance of stories in our understanding of the world. For instance, Jerome Bruner (1991) argues that knowledge comes in two types: scientific knowledge and narrative knowledge, and the two are complementary, unable to substitute the other. Stories are important in other ways, specifically, for human action. As per Alfred Schutz (1899-1959), every action is made of a purpose, a mental project, and an act. The final act itself cannot express the full meaning, since meaning is created through the interpretation of the purpose and the mental project. The mental project is used as a rehearsal of the act: it enlists the elements of how, where, when, and by whom an action would take place. Since the purpose and the mental project are exclusive to the actor's mind, the only access to the meaning is through interpretation. Every act can have three meanings, coming from the interpretation of three various sources: the actor, the correspondent, and the external observer. This is an accepted basic view in interpretative methods in social sciences, with emphasis on the interpretations from the actor, and the scientific researcher (the external observer). So, through studying these two perspectives on the meaning of an act, one can understand the concept of double hermeneutics in social sciences. Alfred Schutz did not use the concept of stories; however, this dissertation is based on the principle that the mental project of an action has the structure of a story, with a plot and a narrative ending. In other words, to the actor, the meaning of an action is the meaning that s/he creates through planning the mental project, which could be expressed by a story.

The conceptual background of the dissertation is inspired and influenced by the Conference of Rhetoric and Narratives in Management Research (RNMR), held biannually at ESADE Business School, specifically, the sessions in 2011 and 2013. The philosophical concepts introduced by Hans Sigaard Jensen (2011), the relation between narratives and intentional action by Eduard Bonet (2014), and the study of intentional

action, creativity, and research by Nuria Nadal-Burgués (2015) have been the main background and source of the dialogue started here.

1.2. A Review of Organizational Change Theories

Change and its consequences constitute the history of mankind. It is neither new nor surprising to observe change in organizations. The newness of this topic, however, originates from the perspectives and angles taken at it. Weick and Quinn (1999, p. 362) laid it out as "the distinction between change that is episodic, discontinuous, and intermittent and change that is continuous, evolving, and incremental". Van de Ven and Poole (2005) classify theories of change into four categories, based on their take on the ontology of organizations, i.e. viewing organizations as thing versus process, and variance and process epistemologies, i.e. focus on the change outcome versus the process of change. There is also the matter of planning, Porras and Robertson (1992) suggested that organizational change can be approached based on whether or not it was planned, and came up with four possibilities to classify change: developmental, transformational, evolutionary, and revolutionary.

In any case, understanding change requires observing the state of the organization as it is, and through time, with regard to events that alter the state of matters from one point in time to another (Ford & Ford, 1994). This treatment of the topic of organizational change is central to understanding our own human existence; people have, through time, yearned to create a pleasant and plausible story about the "journey" of life and it is ultimate "goal" or meaning. In other words, we are constantly reviewing the effects of events in our worlds, throughout the span of our life, to understand what we are supposed to become and what we have actually become.

One good reason for this enthusiasm with understanding the phenomenon of change is, perhaps, the belief that understanding change is the only way to decipher the intricate details of how a system works (Lewin, 1951; Schein, 1996). Another reason originates from the belief that change is the essence of an organization, in that even routines and well-rehearsed performances are, in fact, constant improvisations and improvements (Orlikowski, 1996; Feldman, 2000). Innovation and change creeps into almost all human acts, even when they are supposed to be repetitive. Hence, understanding change and its bearings in an organization could pave the way to a clearer observation of the origins of routines, which are essential to the study of organizations (Nelson & Winter, 1982).

James March's second "footnote" to organizational change encompasses the need to study change in the way proposed in this dissertation: "Changes in organizations depend on a few stable processes. Theories of change emphasise either the stability of the process or the changes they produce, but a serious understanding of organizations requires attention to both." (March, 1981, p. 563). The inherent uncertainty in the context and operations of an organization calls for agility to handle change, in process and produce, depending on the priorities of the firm at any given time. Using Schutz' concept of mental projects as a treatment to narratives of change, one can shift the priority on the process (the plot of the narrative), or the outcome/produce (the overall theme of the narrative). Nevertheless, shifting priorities should not cast a shadow on the vitality of understanding both issues of end and means.

State of the art: The most notable empirical fact in studies of organization change is that the reported success rate of change programs has been rather low (Balogun & Hope Hailey, 2004). Even considering the most recent studies, it seems that the success of change programs is rare (Jacobs et al., 2013; Jansson, 2013; Michel et al., 2013). This observation indicates that something rather important is amiss in our knowledge of

change in organizations, at least to the extent that improved knowledge would inform change processes. Whether it is lack of a more suitable framework to study change (By, 2005; Rafferty et al., 2013), or reasons that lie beneath planning and implementation (Kotter & Schlesinger, 2008; Burnes & Jackson, 2011), the answers are still not clear. One plausible reason might point to the observation that while the study of organizational change has been a major topic in the past decade in the academic community (Dahl, 2011; Thomas & Hardy, 2011; Coget, 2010; Martin, Johnson, Cullen, 2009; Peus et. al., 2009), the topic of change management has not received the same attention in the major journals, since it is more oriented towards practitioners. Nonetheless, practitioners and scholars have been looking for answers to successfully achieve organizational change during economic crises (Ashurst and Hodges, 2010). Attention to an organization's current standing and identity is regarded as a promising venue to study change (Brown et al., 2005; Chreim, 2007; Landau and Drori, 2008; Moore, 2011). The best suited method to delve into such matters is the qualitative method (Bartunek and Seo, 2002; Jones and Khanna, 2006; Edmondson and McManus, 2007; Shapiro et al., 2007), since it has the capacity to unfold the complexities of the relationship between an individual and the organization when it comes to questions of identity and communication (Shimoni and Bergmann, 2006; Garcia & Gluesing, 2013). To this end, my dissertation uses narratives and stories to relate to the phenomenon of change, since every individual engaged with the change project has a different story, and every story effects the overall project in one way or another (Brown and Humphreys, 2003).

1.3. Research Objectives and Questions

Understanding the role of rhetoric and narratives in managing organizations, calls for responses to questions below:

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- *When are rhetoric and narratives needed in managerial work?* The first paper, "Rhetoric and No Control, a New Managerial Function", suggests an answer to this question, using the concept of "stages of development" in problem formulation. That is, in situations where exploration is the priority, such as innovation savvy firms or research organizations, the problem of what needs to be done is quite vague and abstract. For example, the statement "we want to find a cure for autoimmune diseases" would require rhetorical openness, as the precise activity that leads to a specific outcome is yet unclear. However, as the researchers work on persuading each other that a specific topic needs to be at focus, the scope of interpretations narrows, and, through rhetorical closure, a consensus on the problem at hand can be reached. In other words, the decision to engage in openness or closure is based on what stage the problem is at, concrete or abstract.

- *What is the role of narratives in uncertain conditions, such as change*? Once it is agreed that uncertain situations and vague problems require openness, how should this required openness be addressed? To investigate this question, the second paper, "The Road Not Taken: The Narratives of Action and Organizational Change", compares two types of narratives regarding their approach to rhetorical openness. The first narrative type has a rigid and clear plot but leaves a certain degree of vagueness to the outcome, therefore, it might have a variety of endings. The second narrative type stresses on a clear and fixed ending, while keeping a vague description of the process, therefore maintaining the flexibility of the plot and its openness to interpretation. Depending on what the manager must control, either the final outcome or the process will remain flexible. In other words, it

seems that keeping both, the final outcome and the process, either rigid or flexible at the same time, is not eventually a viable option.

- *How is a change project managed?* Supposing that the manager now knows what their priorities are, regarding the flexibilities and rigidities of their narratives, they would need to communicate it throughout the organization and oversee the project of change. As an organization is not a unitary actor, the personal stories and interpretations of the members involved in the project of change are as important as the narratives of the instigators of change. The third paper in this dissertation titled: "The Tale of Two Cases: Expanding the Behaviour Approach to the Firm" takes advantage of two case studies from neighbouring countries and follows their internationalization path, in order to compare their rhetoric and narratives regarding the organizational structure and communication. Despite their geographical proximity, it is revealed that the two have fewer practices in common than expected.

One of the most interesting contributions of this project, is viewing freedom to formulate future plans by means of narratives as an irreplaceable factor in organizations. Not only is it an undeniable need in the face of uncertainties of an ever-changing environment, but also it seems to be a human desire, as the individuals will strive for it in one way or another.

1.4. The Structure of the Thesis

This dissertation contributes to research by three papers presented in the following chapters (as outlined above), which are closely related though corresponding on distinct

levels. While each study a specific area of application, they all emphasis the need for narratives in organizational and management research.

The first paper, "Rhetoric and no control: a new managerial function"[1] explores the concept of rhetorical openness/closure in relation to the stage of a project; as consensus increases and problems become more specific and precise, rhetoric expression turns from open to closed. In situations where rhetorical closure is not yet reached, variation in narratives is a crucial consideration in decision making. As a project moves from the vague to clear formulation of problem, the rhetoric shifts from abstract to concrete, with fewer opportunities for interpretive openness and higher chances of consensus on a single narrative as the plan for the future. The fact that rhetorical means of persuasion open the variety of options for a problem to be solved and through consensus they decrease the assortment of interpretations that might rise during the time of openness, suggests that only a few of the options are fit to be pursued at any given time and that interpretative methods are suitable to disclose them. Once uncertainty is reduced and a few options are chosen, traditional management forms turn out to be more suitable. In the absence of clarity, interpretative flexibility and openness turn into a new managerial function to cope with novelty, innovation and high uncertainty levels.

The second paper, "The road not taken: the narratives of action and organizational change" focuses on the same issue, but at the communication level, using Schutz's formulation of human intentional action, which comprises of elements that are closely comparable with a narrative form. By observing and comparing the narratives of different actors, it can be concluded that through degrees of vagueness in the mental project, actors cope with the inherent uncertainty of their situations. When making decisions, managers

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[1]An earlier version of this article was presented at Strategic Management Society, Special Conference, 2013, Lake Geneva, and published in the proceedings of DRUID Annual Conference, 2013, Barcelona.

focus on the fit between the acts and the overall story of the firm. This is examined through a case study of a Japanese MNE, where the subsidiary and HQ narrate their own stories, while maintain the overall identity of the firm. It is shown that in situations where the desired final outcome or goal is clearly defined, managers practice their freedom in creating various narratives that change from one point in time to the other, while keeping the final goal as fixed. On the other hand, if the procedures to reach a certain goal are communicated as the most important priority to the managers, they will then exercise their want for freedom to create numerous goals to fit those fixed procedures. The author has come across two distinct types of narratives in this research. The first type are the ones that emphasize the final goals, while leaving the means to reach the goals in some vagueness. The second type are those that maintain the process with elaborate details, stressing the steps to reach the goal(s), while the final outcome is left in a shadow of ambiguity. The first type of narratives acts to reduce the variety of interpretations regarding *what* the goal is, and stimulate the variety of interpretations of *how* to reach it. The second type, adversely, limit the range of interpretations about how to reach the goal, but leave the desired outcome vague.

The third paper, "The tale of two cases: expanding the behaviour approach to the firm" takes the comparison a step further, by comparing the Japanese MNE with a Chinese counterpart. It examines the premise of rhetoric and narratives as a general driver of strategic planning. The results of the longitudinal case studies clearly show that their success or failure is not explainable by theories of international business only. While current literature suggests that geographical proximity translates into similar organizational culture, our observation reveals that the two companies benefit from vastly diverse cultures, as a result of how their vision and goals are communicated across the international subsidiaries. Despite their cultural and geographical proximity, the two

MNEs tell very different stories; one is willing to risk the foreign success at the price of strong internal identity while the other is more adaptable to the circumstances of the foreign markets. The constraints placed on the stories that each respective manager can deliver dictates the decisions that each organization will make. Viewing actions as narratives would require looking into the plan of an action, and how it unfolds in relation to the purpose of the aforementioned action. Understanding change from the perspective of those who plan it and those who must go through it, and differentiating between the two, brings a number of interpretations and meanings to the project of organizational change that was neither foreseen, nor taken into account when the project was designed.

In order to better understand the function of narratives in organizations, evidence from case studies are collected and compared. They demonstrate that reaching consensus allows action, while lack of it could lead to divergent and/or conflicting actions. The longitudinal case study is on a Japanese MNE, which was chosen because it was right at the beginning of the introduction of an international change program from the HQ that would have dire consequences for the operating branches. Due to its size and its problematic management, there was a lot of confusion and chaos going on, which made it an intriguing case with high probabilities of failure. Furthermore, the almost complete access to managers and their meetings, be it on a large scale or a one on one scale, made it an ideal case to study narratives and the use of them in a change situation.

In the conclusion of the thesis, I sum up by outlining the contributions to research, implications, and opportunities to further this topic of study.

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2

Rhetoric and No Control, a New Managerial Function

2.1. Introduction

While in the history of management we have been through many theories of organization structure, when it comes to management forms, we have adhered to a limited few. This neglect brings some limitations to management of novelty, a crucial aspect for today's organizations struggling to develop and innovate to create value (Birkinshaw, 2008).

A few scholars in economics and management have made serious attempts to explain the limitations of the steady economy of "*homus economicus*" and the passive management perspective, which attempts to rationally control, plan, and coordinate production. Joseph Schumpeter (1934) placed the entrepreneur in the centre of the economic life, obsessively seeking innovation and provoking change. In contrast to the "economic man", who calculates marginal costs and revenues based on known data, the entrepreneur must be a man of "vision", willing to take chances, on the basis of intuition, on courses of action in opposition to the established patterns of the circular flow. Alfred Chandler's (1962) idea that "structure follows strategy" placed the entrepreneur and his activity, which goes far beyond the development of functional tasks, in predominant lieu. Kenneth Andrews

(1971) introduced the concept of corporate strategy and distinguished between the formulation and implementation of strategy. Those are classical attempts to introduce a wider explanation of managerial activity through strategy.

The bureaucratic organization is the fundamental structure of a firm, considered by Max Weber as the "ideal form". The main characteristics of, and requisites for, such ideal structure are rooted in assuming rationality and predictability through bureaucratic administration, legal formalism, and industrial capitalism (Weber, 1904). At the beginning of the 20th century, Frederic Taylor (1911) and his peer Henry Fayol (1916) introduced a theory of management attached to the neoclassical economics approach where efficiency was achieved through rationally controlling, planning and coordinating the production. Taylor's Scientific Management was based in maximum specification and measurement of all organizational tasks (Taylor, 1911), therefore relegating the notions of management and organization to a mechanistic activity. This view strongly influenced other organization theories, limiting the influence and scope of the managerial activity.

For instance, the subject of organizational structures has been broadly covered and new conceptualizations have emerged based on the limitations of bureaucratic structures when dealing with innovation and change, such as, clans (Ouchi, 1980), adhocracies (Mintzberg, 1984) and fiefs (Boisot, 1986; Cameron & Quinn, 1999). These new organizational forms have been explained in very different terms, focusing on an unclear division of labour and command. However, this change in theories about organizational structure was not accompanied by a shift in the thinking about management forms which keep focusing on planning, coordinating, and controlling the production process.

In this line of thought, an original approach to manage and foster novelty, innovation, and change is suggested, taking the theories of organization structure as a subject to evaluation

for two main gains: first, we give evidence of the deprived development of management forms present in the literature on organization structure and its consequences. Second, we introduce a new managerial model which copes with innovation and its contingencies, such as uncertainty and the subjective reluctance of the individuals to the unknown. Since traditional management forms are dealing with uncertainty through means of control, we argue that this juxtaposition is counterproductive in both directions; the realm of uncertainty is where novelty reigns and the realm of control is where efficiency and productivity are in focus. In this model rhetoric is a new management function able to cope with uncertainty through means related with openness such as, interpretative flexibility. We then suggest viewing organizations as a category of sub-structures, each going through a certain stage of development that may or may not be in agreement with others. Such approach would enable a more dynamic view of the firm than the ones offered by organizational structure and traditional management forms. In our view, management is relevant to the level of intelligibility of the subject to be managed.

2.2. The Disengagement of Organizational Structures and Managerial Functions

The literature on management forms is profoundly grounded in the concepts of controlling, planning, and coordinating the production activity whose basic idea and aim was the strict abolition of craft-dependent practices (Taylor, 1911) and freedom, in form of variance, in order to maximize productivity. This premise is strictly related to the Industrial Revolution context which resulted in the raise of big corporations and mass-production. Within this context, management has been relegated to meet efficiency and maximize productivity. In this part of the article, we claim that the development of organizational structures has grown consistently within this context, contributing very little to the management of novelty and innovation.

The topic of organizational structures has been extensively covered by studies of organizations, organizational change, strategic management and institutions. For instance, a well-known alternative to functional and divisional organization is the matrix organization. The triumph of the matrix organization relies in combining the strengths of its precursors. It presents two axes, the vertical axis places the functional authority and the horizontal axis working teams assembled by particular projects or geographical areas, combining the functional and market dimensions (Galbraith, 1971; Davis & Lawrence, 1977). The matrix organization has been accompanied by an extensive amount of literature centred on who reports to whom but has brought few new challenges at the managerial level. Ideas regarding *total quality management* and *lean production* as an alternative to traditional production methods, have introduced quality control and flexibility in the production process. Still under the influence of traditional forms of management, the organization sharpens the control over the production process to obtain small volumes of an extended range of commodities, in order to reduce the cost of large inventories and meet customer preferences (Holweg, 2007).

Other alternatives to former bureaucratic structures come from the governance and cultural approaches, which identify other types of organization structures, such as, clans (Ouchi, 1980), where the idea of control applies only in the presence of efficiency-related objectives (Ouchi, 1980; Boisot, 2011), adhocracies (Mintzberg, 1985) and fiefs (Boisot, 1986; Cameron & Quinn, 1999), where an unclear division of labour, communication flows and authority were introduced. These new organizational types are highly dependent on specialized teams and the emphasis is placed on the coordination function. Coordination is achieved through mutual collaboration and little formalization (Mintzberg, 1980).

The climax of the structural revolution came with the relational approach introducing the idea of a network organization, which described an organizational form that was seen as innovative (Powell, 1992). The management functions of the network structure, as Burt (1992) describes, shifts from formal to informal control. The network organization faces less clear directions and more uncertainty in coordination-related goals. Successfully dealing with informal control would, for a manager, mean higher chances of promotion and greater financial rewards (Burt, 1992). In the network organization, again management forms are not the primary topic of discussion.

The new organizational structures attempt to put a stop to standard bureaucratic lines, in order to seize opportunities, solve problems and obtain results (Waterman, 1992). Even non-bureaucratic templates still rely on traditional management functions like planning, coordinating and controlling. But softening the sharp functional slope is a necessary but not sufficient condition for facing innovation and change.

2.3. Management Forms and the Absence of Control

Innovation activities, as well as, scientific research, often involve managing very ambiguous problems which implicitly hold elevated levels of uncertainty. Traditional forms of management based on strict control, concrete task breakdown, and a clear division of labour, require general level of certainty to be applied, and present many limitations in ambiguous and uncertain situations (Jensen, 2011; Nadal-Burgués & Bonet, 2012).

Based on this our claim is that uncertainty is only manageable in the absence of control. Following this claim we first introduce an enlarged conceptualization of management functions which copes with the two contrasting settings of the managerial activity, the

control approach to maximize productivity and the function related to innovation and change which often implies making decisions under very uncertain conditions. And second, we discuss the implications of the paradox of dealing with uncertainty while managing under the influence of control-based approach.

Rhetoric: a function to absorb managerial uncertainty

Management literature takes the existing functions of rationally planning, coordinating and controlling as sufficient while change, value creation and innovation cannot be fully explained through them. This path-dependent approach is looking at problems through certain models, analogies and concepts at the exclusion of others (Jensen, 2011). The following lines present a fourth management function, which enlarges the management domain from the dominant tradition of clearness to the realm of ambiguity introducing the freedom or openness of interpretation due to a lack of clarity. Managers often need to understand or face a particular situation that does not have a concrete model and certainly not a straight analogy to be applied; or where the present models do not work. This particular situation requires other means to be understood.

One way to gradually disambiguate such situations is by means of ongoing interpretation, generating new symbols, and engaging in persuasion in order to eventually generate consensus. Reaching consensus allows action, while lack of it could lead to divergent and/or conflicting actions. However, it is possible that an acceptable result happens despite lack of consensus, but it would be a matter of chance and at a higher cost. The above-mentioned attributes of creativity, i.e. ambiguity, interpretation, symbolism, and persuasion, belong to the realm of rhetoric and must be considered as a central function of management. Mangers often need to make decisions where different meanings and interpretations arise, as in the example of Steve Jobs. Considerably the epitome of 21st century manager, since the very beginning, Jobs is an example of managing through

means of persuasion, thus rhetoric. We probably can all agree that it was his ability to persuade people that brought his visions to reality. Jobs' interpretation of consumer's needs was at first unintelligible but to a few who would then help him shape the vision. As far as managerial activities go, this is certainly not without precedent.

Henry Mintzberg (1973) in "The Nature of Managerial Work" already pointed that managers engage most of their time in conversations (Mintzberg, 1973). Considering the evidence brought by Mintzberg we assert that managers' main activity is to engage into conversations which create forms and spaces for interpretation, negotiation and persuasion (Jensen, 2011). Moreover, the theory of management supports only a small percentage of its total activity. Rhetoric or the art of the conversation is likely to widen the range of important managerial functions without dismissing the most recognized ones.

The art of conversation, thus rhetoric, which according to the Classics refers to the "art of speaking well"[2], could be incorporated as a new managerial function. Several studies disclose the role of rhetoric in management sciences and offer a conceptual framework to understand how managers use language for achieving their aims but this approach does not only imply the logical and argumentative approach resulting in the acceptance of a theory but also a "good understanding of feelings, motivations, purposes and values" (Bonet & Sauquet, 2010:122) which would help to capture the particularities of a certain situation, recreate them symbolically and display them ready to be changed through a consensus.

Moreover, managers are often entrenched in very ambiguous situations and "much of the effort in acting in such situations depends on the ability to interpret and to act and

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[2] Gorgias a Socratic dialogue written by Plato 380 B.C. Gorgias is inquired by Socrates on the definition of rhetoric.

persuade others" (Jensen, 2011:54). Borrowing terminology from the sociology of technical developments, we consider that technological developments encompass interpretive flexibility -which emerges when problems or findings are open to more than one interpretation, and closure -that occurs when a consensus on the issue at hand is reached (Pinch & Bijker, 1984). Sociology of technical development focuses on the social and historical context influencing the innovation process and assessing the success and failure of models, theories, or experiments (Fleck, 1979; Collins, 1981, 1985; Pinch & Bijker, 1984; Latour, 1987). The striking similarity between the stages of technical development and managing change and novelty, to us, lies in their inherent need to make decisions regarding what action to take in the face of incomplete information, ambiguity, and/or uncertainty.

Depending on the type of problem or goal that needs to be addressed, rhetoric could function to absorb uncertainty. The use of rhetorical means brings a variety of interpretations, that in turn, generate new options. As consensus starts shaping through persuasion, the use of rhetorical means tends to narrow and eventually close the interpretive stage, and as a result, reduces the variety of options. For instance, by introducing a new metaphor, one of the most well-known rhetorical devises, in a context, there is immediately a chance to invite the generation of new and varied interpretations. In this open stage "it is impossible to say which interpretation is the right one" (Jensen, 2011: 51). The unintelligibility of this moment puts the mechanisms of interpretation – symbolism, freedom and judgment, to work in order to bring to the table more intelligible options. For example, since long ago human kind desired to reach the moon. This old and ambitious project has been subjected to many interpretations. At the very beginning only poets could reach the moon. Later, in the 16th century, Galileo was the first to see it with detail, and as other numerous scientific developments were introduced, finally, in

1969 Neil Alden Armstrong stepped on it and closed the moon project which lasted many centuries and got many different solutions. The project has evolved per the interpretations given by the people pursuing it and in accordance with the available resources of their time.

The fact that rhetorical means of persuasion open the variety of options for a problem to be solved and through consensus they decrease the assortment of interpretations that might rise during the time of openness, suggests that only a few of the options are fit to be pursued at any given time and that interpretative methods are suitable to disclose them. Once uncertainty is reduced and a few options are chosen, traditional management forms turn out to be more suitable. In the absence of clarity, interpretative flexibility and openness turn into a new managerial function to cope with novelty, innovation and high uncertainty levels. In this line of thought next section addresses different management forms in relation to different degrees of uncertainty an organization might face.

Control and uncertainty

The importance of the subject of innovation brought Management Control Systems literature to assert that accounting control systems are used in creative contexts as inspirational devices rather than as monitoring tools, obtaining both high efficiency and control while innovating (Davila & Ditillo, 20I11; Adler and Chen, 2011). The following lines will discuss the implications of dealing with uncertainty and managing under the influence of control-based approach. We believe that uncertainty cannot be managed through control-based approaches, since these approaches show a clear limitation when they implicitly suggest a path-dependency approach to solve a concrete problem (Boisot, 1999). The nature of a problem-solving approach does not imply Knightian[3] uncertainty,

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[3] Frank H. Knight (1921). *Risk, Uncertainty and Profit*. Boston, New York: Houghton Mifflin Company. Knight explains the distinctive idea of uncertainty versus risk, in which uncertainty

often present in knowledge organizations, such as research and development laboratories. Their focus on complexity rather than uncertainty enables them to proceed under the basis of a control-based approach.

In the governance approach, as in ours, the idea of control applies only in the presence of efficiency-related objectives (Ouchi, 1980; Boisot, 2011; Jensen, 2011; Nadal-Burgués & Bonet, 2012) based on goal and task clarity. Following this line of thought we observe that sources of uncertainty, such as, growth, environmental volatility, scientific and technical developments, and changes in demand preferences or supply chain, claim "refashioning" of traditional management forms.

Moreover, Alfred Chandler (1962) differentiates entrepreneurial and functional management. Entrepreneurial action affects the allocation of resources for the enterprise while functional management deals with decisions about resources that are already allocated (Chandler, 1962). Considering this, Chandler implicitly relied on the idea of uncertainty and complexity as different activities; the entrepreneurial manager is the one dealing with uncertainty, and providing a range of options from which some would be later on implemented by functional managers in charge of day to day operations and contingencies. This new role implies the need for functions other than and beyond planning, controlling and coordinating everyday operations.

Although entrepreneurial management in research and development organizations would provide a clearer and more straightforward pattern of how the rhetorical function of management is put to practice in order to deal with uncertainty, one must not omit the rhetoric function from the decision-making activities of a middle manager in charge of

refers to situations where the possible categories of outcome are unknown, therefore no probability is assignable to them.

efficiency related tasks. For instance, a restaurant manager might have to go through an argument with the staff, over how to clean the dishes, which is a simple and mechanical task for the staff to perform, not exactly by the standardized form, but to the same effect. By focusing on the avoidance of craft, variety, and possibility to engage in freedom through interpretive flexibility, the manager loses resources that could be invested in something more relevant to the final outcome.

The entrepreneurial activity could be considered a task close to providing options to tackle uncertainty. Shannon and Weaver (1949) in "The Mathematical Theory of Communication" when discussing the nature of information under certainty and uncertainty, and using the probability theory, argue that freedom of choice is higher in the presence of more information. The conditions of higher freedom and more information appropriately address higher degrees of uncertainty, i.e. higher entropy. Shannon and Weaver tacitly imply the unwillingness of using control-based approaches when uncertainty is high. Considering this we affirm that control-based approaches are not closely relevant to situations with high uncertainty, thus, they do not appropriately deal with innovation and novelty. Novelty contains some degrees of uncertainty and ambiguity resulting from additional information (March & Simon, 1958). In pursuing novelty, the degree of uncertainty can be very high and absorbing it would demand other management forms which can cope with the absence of control.

2.4. Stages of Development: A New Approach to Managing Organizations

Organizations deal with both novelty, to foster innovation and, at the same time, stability or order to exploit their current competitive advantages (Schumpeter, 1934; March and

Simon, 1958; Porter, 1980). This subject has been widely developed in ambidexterity literature (Birkinshaw, 2008; Gibson & Birkinshaw, 2004; Raisch et al., 2009). They broadly suggest that ambidextrous organizations create and use structural mechanisms that enable higher performance. However, the focus on the perfect balance of the dual structure while emphasizing on efficiency and productivity (Gibson & Birkinshaw, 2004) does not consider a new management form able to cope with the structural differences. This raises the paradox in which the same functions of planning, coordination, and control are used to deal with both exploration and exploitation (March, 1991).

This part of the paper develops a managerial model based on the notion of stages of development which considers different degrees of uncertainty. Open stages of development bring in the possibility to face uncertainty introducing rhetoric as a new managerial function. This, permits categorizing organizational objectives in two stages.

In closed stages of development goals are under clarity and objectivity, therefore uncertainty is very low and traditional forms of management are suitable. However, not all organizational goals can be placed in this category, since goals' specification is sometimes not evident, causing the traditional management forms to face many limitations and to lose viability over time due to their rigidity and often inflexibility. In contrast, in open stage of development, elevated levels of uncertainty are faced in the absence of pure rationality and objectiveness, rhetorical openness invites managers to reflect, observe and make interpretations.

According to the previous section we state that managers engage in periods of rhetorical openness to deal with uncertainty, eventually leading to a consensus that would mark the entrance into the stage of rhetorical closure. The notion of stages of development does not focus on the process but on the degree of uncertainty of the proposed goal to acknowledge what form of management is required at each stage. Figure 1 suggests that

different degrees of uncertainty would require different management forms. It enables a shift of focus that would let us consider context, work activity and goal as the focal point to determine the appropriate management form.

Open Stages of Development	*Uncertainty*	*Fail*	- *Symbolism* - *Judgment* - *Freedom* - *Rhetorical openness*
Close Stages of Development	*Certainty*	- *Bureaucratic organization* - *Instrumental Materialism* - *Complexity* - *Rhetorical Closure*	*Fail*
		Control	*Interpretative Flexibility*

Forms of Management
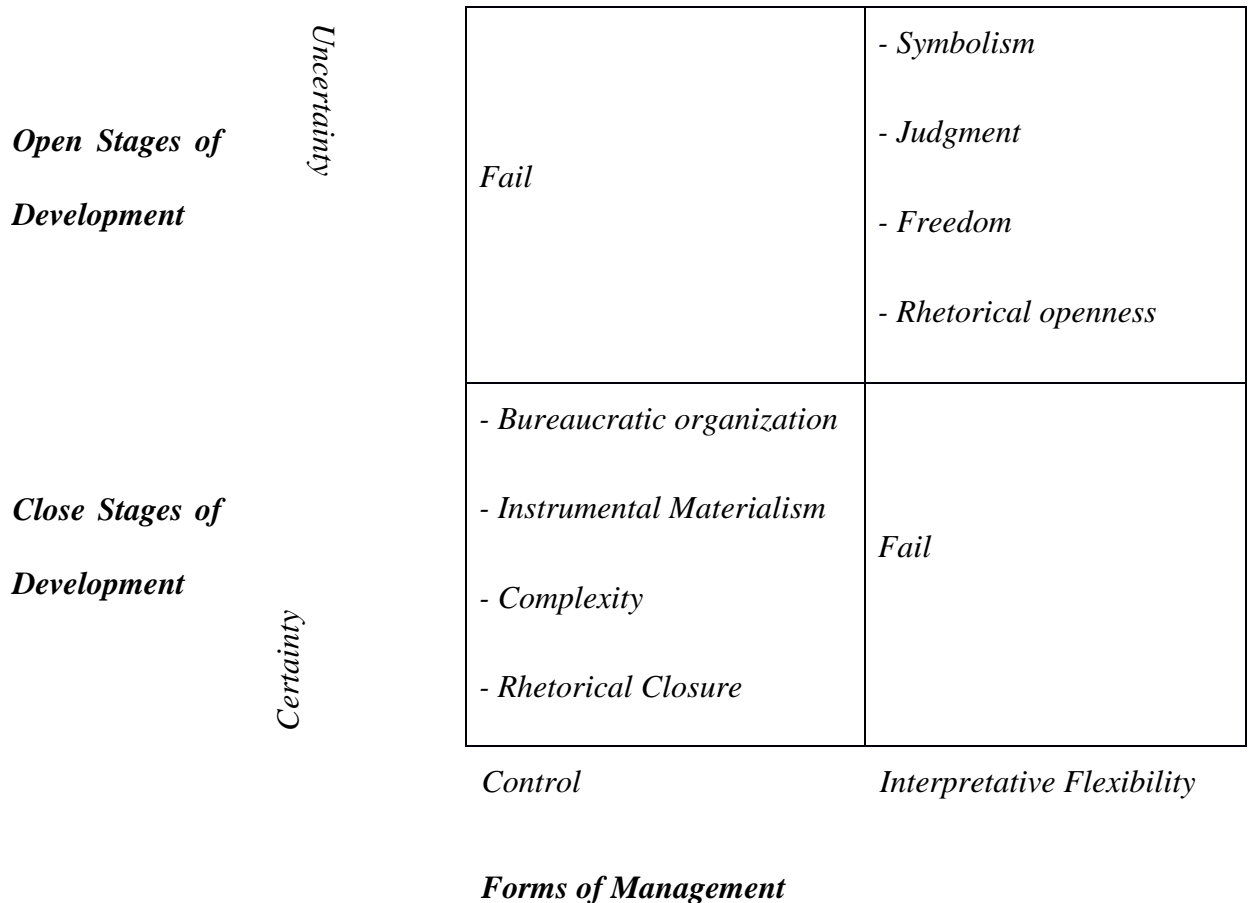
Figure 1: Management forms in relation to the degree of uncertainty

Summarizing, the bottom left quadrant represents closure stages of development under conditions of low uncertainty. Under such circumstances, control-based management forms seem most proper; whenever organizational structures and the traditional forms of management are suitable because a clear work-flow can be envisioned, it is feasible to breakdown the work in simple tasks and responsibilities can be accurately assigned.

The top right quadrant, the open stages of development are presented under conditions of high uncertainty. In this case, traditional forms of management are inappropriate because reduced clarity of the work-flow and difficulty to breakdown the work in simple tasks makes it impossible to rationally assign responsibilities. Therefore, strict control, planning and coordination are futile, since the building blocks for planning, controlling, and coordinating tasks are not readily available in the first place.

The top left and bottom right quadrants show the discordance between context and managerial forms, representing the paradox between the types of goal or task accomplishment and the management form used to achieve it. Therefore, managing through methods relying on strict control and coordination when subjected to high levels of uncertainty would possibly prove to be counterproductive. As well, in a clear setting, when the goal, the scope (planned cost and resources) and timing can be specified, managing through interpretative flexibility would lead to certain inefficiencies.

2.5. Conclusions

The rhetorical turn of managerial functions not only enlarges the functions of management but also gives meaning to the literature on organizational structure. Through rhetoric, managers shape and change the symbols and meanings of the present status of time and get into something new. Therefore, in addition to the functions of controlling, planning and coordinating by the means of rationality, deliberate engagement in rhetoric is another managerial function to consider dealing with uncertainty in the most useful way. Traditional management forms do not appropriately deal with uncertain and ambiguous situations that are common in the context of research and innovative organizations. So far, control has been viewed as a fundamental aspect of management, limiting the range and application of management forms under uncertainty.

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Our model represents this enlarged view of the managed firm by considering diverse types of goals and tasks which will require different forms of management depending on how uncertain the goal or tasks are. The traditional approach to management is neither covering the entire scope of the managerial activity nor is offering the means to deal with uncertainty. We show that dealing with uncertainty using traditional management forms can lead to counterproductive outcomes. Uncertainty is absorbed through interpreting the situation, giving meanings and using persuasive arguments to reach a consensus for action; this new managerial approach has been introduced in our study as rhetorical and it complements the rational methods which we find suitable when dealing with concrete and specified tasks and goals. We suggest that rhetoric is a crucial managerial function that better infers in what managers do to solve the wide variety of problems that they are facing when approaching novelty. It is true that once the problems acquire a more determined form, the rational approach can serve better to the purpose of managing and to deal with the unpredictability of economic cycles, the wide variety of organizational goals, and the incessant search for something new.

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3

The Road Not Taken: Narratives of Action and Organizational Change

3.1. Abstract[4]

Purpose: This article aims to advance our understanding of the importance and function of narratives in the context of organizational change.

Methodology: Drawing on Schutz's theory of human intentional action, I introduce the concept of a mental project – broadly referring to the mental rehearsal of a future act – and build a conceptual framework that connects mental projects to narratives. Viewing actions through the lens of mental projects and narratives would prompt a combination of rigid clarity and flexible vagueness in both the action and the stories. Considering this, I developed a longitudinal case study on organizational change in an international company amid an intense renewal process. Several narratives about the project of organizational change were studied, and these revealed some of the functions that narratives serve as well as their importance in connecting plans of human action with the actual execution of those actions. This article identifies numerous distinct narratives,

created by different actors, which focus on the process of setting and reaching a final goal. The content of these narratives reveals how different views and strategies co-exist simultaneously in the organization, even when actors are trying to achieve the same goal.

Findings: Traditionally, management takes an analytical approach to understand how change occurs in organizations. This paper emphasizes the importance and functions of narratives as a fundamental component of organizational change. On par with the linear plan of action, it is argued that the assortment of narratives delivered from various points of views in the organization are, indeed, the driver of change, and their dynamic interaction would determine the outcome of a change project.

Value: Understanding the role of narratives in organizational change. This article emphasizes the difficulties of using an analytical approach as a basis for understanding how action is implemented. This difficulty arises because of the variety of interpretations and meanings given to the project purpose and goal, and how these interpretations and meanings influence people's future actions or project success.

3.2. Introduction

The idea of strategic planning as a way of programming future organizational action is commonly questioned as a reasonable premise for understanding organizational change (Mintzberg, 1994). Because plans are incomplete and conditions change in unforeseen ways, the goals that are set at the beginning of a change process are rarely realized as intended (Mintzberg & Waters, 1985; Mintzberg, 1994). For this reason, unforeseen events are more likely to conspire against goals that are precise and easy to verify. A reasonable response would therefore be to formulate more vague goals, so that the vagueness in goals matches the uncertainty in outcomes.

In line with this characterization of strategic planning, the promise of the analytical approach to organizational change in economics and management studies is usually broken when confronted with the actual processes of planning and executing organizational change projects (Mintzberg, 1994). From the perspective of employees and managers, promises are broken, again and again. How then can managers trust strategic planners who promise that the outcome of a change process will meet a clearly specified ambitious goal? They cannot and probably do not.

It is here proposed that managers would rather embrace promising narratives than trust clearly defined ambitious goals. In line with Mintzberg's (1994) claim that managers should make their contribution around the strategy making process, the idea is that mental projects take the form of narratives that managers can believe in. In other words, it is conceivable that mental projects can be formulated as narratives that managers view as credible promises even though the specifics remain vague. Narratives that can somehow serve as credible promises about outcomes of change processes thus connect planned actions with uncertain outcomes.

Drawing on Schutz's (1953) theory of human intentional action, I pursue this idea by introducing the concept of a mental project – broadly referring to the mental rehearsal of a future act – and building a conceptual framework that connects mental projects to narratives. Through a longitudinal case study in an international company going through acquisition by a much bigger conglomerate, this article examines the narratives of 17 managers exposed to radical organizational change. Comparing the actions of these managers with their different narratives as the events unfold, provides an intriguing ground to study the role of narratives as generators of change. These stories give a better understanding of the importance and the function of narratives in organizations, concretely in a project of organizational change.

Perhaps the most interesting contribution of this paper, is viewing freedom to formulate future plans as an irreplaceable factor in organizations, as the individuals will strive for it in one way or another. From the narratives obtained for this study, it is clear that in situations where the desired final outcome or goal is clearly defined, managers practice their freedom in creating various narratives that change from one point in time to the other, while keeping the final goal as fixed. On the other hand, if the procedures to reach a certain goal are communicated as the most important priority to the managers, they will then exercise their want for freedom to create numerous goals to fit those fixed procedures.

More generally, this paper contributes to relate the theory of narratives with the concept of human intentional action developed by Alfred Schutz (1953). By pairing Schutz's theory of human intentional action with the theory and use of narratives in organizations, it is argued that an intentional action has the structure of a narrative. This connection is important to contribute to the development of the theory of narratives.

Viewing actions as narratives would require considering the plan of an action, and how it unfolds in relation to the purpose of the aforementioned action. Understanding change from the perspective of those who plan it and those who have to go through it, and differentiating between the two, brings a number of interpretations and meanings to the project of organizational change that was neither foreseen, nor taken into account when the project was designed.

3.3. The Use and Functions of Narratives

By juxtaposing "decisions" and "happen", James March (1991), emphasized in "How decisions happen in organizations" that there are other aspects that guides us to an

alternative approach to management than that of rational-man perspective and physics. The importance and functions of narratives and stories in organizational change literature is rare but prominent. Deirdre McCloskey (1985) claims that even the history of economy, with its statistical data and methodological constraints, is, in fact, a collection of narratives. It is not the mere presence of narratives that is seen as an impressive part of an organization, but also their effects through interpretations. For instance, Weick's (1979, 1995) contribution on sense-making refers to narratives in organizations and their importance in driving and directing change. Furthermore, in "Translating Organizational Change" (1996), Czarniawska and Sevón suggest that narratives in organizations reveal the answers to questions about the identity and goal of individuals, which are of critical importance when it comes to change. More closely on this topic, Pentland (1999) asserts that narratives are the raw material for change, as they are not just told but also enacted in organizations.

The structure of Narratives

Since our communication skills can be highly developed, they permit us to explain very complex phenomena, such a scientific discovery, or to make sense of our lived experiences (Hawkins & Saleem, 2012). Narratives and stories, as told by many and heard and interpreted by many, are not only used as communication means and literary material, they are also excellent drivers of organizational change for managers (Flory & Iglesias, 2010). Even though there is a bit of disagreement among scholars on whether stories and narratives mean the same (Czarniawska, 1997; Boje, 1991; Gabriel, 2000) the similarities are overwhelming. Flory and Iglesias (2010) further expand the definition of narratives when they claim that a narrative "[...] is the reflective product of looking back and making sense of stories constructed to make sense of life". In all instances, one could safely allow for a narrative to contain three main elements: a plot, that is the sequence of

events and their chronological order, a theme, that is the overarching meaning or morale of the story, and the setting, which is the context in which the events take place. The structure of intentional human action, as elaborated by Schutz (1953) is comparable to the structure of narratives in that it includes a sequence for the unfolding of events, which he calls the mental project, and an overarching meaning, which is the purpose of the action.

3.4. Intentional Action and the Project of change

In many projects, and concretely in a project of change in organizations, perfect information is scarce, making the sole use of analytical tools insufficient to understand and manage change. Though we usually consider management of a project of change in an organization to result from rational reflections and scientific analysis, the projects' design, the decisions it implicates, its execution, and the activities involved during their implementation, go beyond this conceptualization (Nadal-Burgués, 2014, 2015). Based on this, Nuria Nadal-Burgués' (2014) introduces elements of change previously disregarded: a more flexible notion of project than the one used in Project Management literature. This extended notion of project involves interpretation and meanings and "expands the rational, generic and technical notion of project management" (Nadal-Burgués & Bonet, 2016).

In "Common-sense and scientific interpretation of human action", Alfred Schutz (1953) introduces the phenomenological foundations of social science. For Schutz, an action is composed by three elements: a purpose, a mental project - which consists of a mental rehearsal of the future act, and the performance of the act. An action presupposes that one's experience throughout their life provides them with knowledge (knowledge at hand) and a horizon of possible purposes, from which they choose a purpose at hand. This

purpose is to transform an initial state of affairs into a future state. One usually perceives repetitive actions as identical; however, while many of these repetitions are quite like each other regarding their ultimate goal and method of execution, upon closer examination, there are almost always some minute variations. Basic tasks, such as going to work, catching the bus or reading the morning paper fall into this category.

For Schutz, a repeated action is, in effect, a new action which is happened to be considered as similar to a previous action, hence identified with it. This perspective allows us to scrutinize each individual action, be it a routine or a creative one from the basis of its inherent narrative, or as Schutz called it, the *mental project*.

Intentional action and narratives

According to Schutz, a mental project can range from very vague to very precise. It can be seen as a kind of hypothesis that would eventually be corroborated or falsified. This final property, that is, the possibility to corroborate or falsify the hypothesis of an act, comes from comparing the initial purpose to the outcome.

The purpose of an act corresponds with the theme of a narrative: the morale of the story, the point that it is trying to make. Even though, quite like the outcome, the actual purpose of any act is negotiable and difficult to single out, there must be a purpose to ignite the process of an action. The purpose and the outcome are both open to interpretation, the first only to the actor, and the later, both to the actor and the audience of the act.

An action and a narrative have some meaning to the actor or the narrator and, most likely, other meanings to observers. Interpretation is necessary both at the real time, and in retrospect. The actor would have to form interpretations on the go, while s/he evaluates the context and takes every step of the project. Once the act is completed, the actor might see that the outcome is more or less what s/he was expecting. It could also be the case

that the outcome turns out to be far from expectation, even giving the opposite effect. Even though every act is a desire for a change in the state of the world from time 1 to time 2, in case of organizational change, the evolution in the state of affairs is assumed to be more prominent. The outcome is supposed to be seen not only by the actor but also by the observers/audience as a change in the state of affairs.

The actor and the audience would have their own contextual narratives to interpret the outcome and suggest what the primary purpose must have been. Under such circumstances, organization scientists and organization actors alike, thrive to find a logical argument that would help them sieve through all the existing explanations and find those that could help them foresee and solve future problems when it comes to planning, implementing, and concluding change.

3.5. Case Study

The longitudinal case study is on a Japanese MNE, which I call A-Med in this paper.[5] A-Med was chosen because it was right at the beginning of the introduction of an international change program from the HQ that would have dire consequences for the operating branches. Due to its size and its problematic management, there was a lot of confusion and chaos going on, which made it an intriguing case with high probabilities of failure. Furthermore, the almost complete access to managers and their meetings, be it on a large scale or a one on one scale, made it an ideal case to study narratives and the use of them in a change situation.

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5 The case study of A-Med was conducted by the author in the period of 2011-13 (see more detailed description in introduction).

Studying a multinational company for over two years opens interesting challenges to understanding the purpose and process of change. Through a qualitative case study of A-Med, access to top level management of the Europe, Middle East, Africa (EMEA) was attained, enabling multiple open interviews with same participants, observing them in meetings, and in day-to-day situations. The narratives by the participants and the observations where then used as basic data, along with in-house journals and correspondence within the company.

Juxtaposing the narratives of the actors in the change process at each step and comparing them through time reveals that a success story at each and every phase is the constant, and it is the recollection of the primary goals of change that vary in retrospect at every narration. It seems that the goals do not simply evolve through time, but they are framed differently according to the final outcome at every stage. Through an investigation into the acts, the outcomes, and the narratives of the actors, I hope to gain a better understanding of how change occurs and what makes it succeed, in one way or another. It shows the relationship between the official stories of the company and the ways they are interpreted, as well as the stories and images produced and interpreted by HQ managers and their EMEA counterparts. This study will focus on the divergent stories and interpretations which are based on diverse cultures and views of the business.

Based on top management's 2011 internal survey, the main challenges facing A-Med were related to two basic areas: profitability and identity. The first area captures the financial performance, and ultimately survival; whereas the second area points to a company-wide need to be recognized and discernible in the eyes of the end costumers and other stakeholders. The internal survey suggests that the brand and the overarching integrity of the company's identity is neither known to their employees nor their clients. Examples vary from confusion about the font and colour of the logo to the values and vision of the

company.   These were mentioned as some of the most important reasons for organizational change.

A-Med was established in 1930s, with headquarters in Tokyo, and specialized in manufacturing and sales of healthcare and life-care products. It has branches in the Americas, Europe, Middle East, Africa, and Asia-Pacific, with more than 20,000 employees worldwide. Here, we are looking at the firm's EMEA subsidiary. It is owned solely by Japanese citizens with a strong and perhaps over-emphasized focus on detailed information regarding financial activities, formal communication through budget and expenditure forms, and informal communication through their 'representatives' in almost every area of operation. In contrast, top management of the EMEA subsidiary is an international team, consisting of people who are mostly educated – and with prior professional experience – in the US. All EMEA's top managers are younger in age, and the gender balance is not as skewed as is in the group of owners. The EMEA top managers jointly cover a rather broad area of focus, which is tailored to the country they are working in; for example, strong R&D-focus in Japan, Legal requirements in the UK, Services in Germany, Sales in France, Cost reduction in Italy, etc.

In the paragraphs below, I briefly explain the main problems observed during the two-year study of A-Med's EMEA subsidiary. An interesting observation is that even though problems such as tensions relating to structure, attitude, and communication are persistent, the EMEA subsidiary actually performed successfully at the time our case study ended (as assessed by Japanese HQ). Despite the success of EMEA, our case study revealed several problems, which are here grouped under three main categories – cultural differences, unclear communication, R&D and market orientation – that emerged during the course of the case study. To relate to these points, one must remember that this paper's angle is the narratives and the variety of them.

Narrative Types

As elaborated below, there are two distinct types of narratives: the ones by the headquarters, which emphasize the final goals, while leaving the means to reach the goals in some vagueness. That is, reducing the variety of interpretations regarding *what* the goal is, and opening up the number of interpretations of *how* to reach it. The HQ has clear ideas about the direction that the company must head towards, but knows little about the situational details in each branch. On the other hand, since the means to reach those goals are more contextualized at the EMEA level, the managers at EMEA tend to focus on how they are going to achieve the goals, as, due to their location, they know a lot more about the context they are situated in than the HQ. Here is an excerpt from two interviews to illustrate the point above. The first interviewee is at HQ and the second is the head of UK branch:

Interviewer: "…what have you achieved in the past month and what do you have in store for the future?"

Interviewee1: "…there is a lot more to do… we [HQ] hope that they [EMEA] see our points. They think that we are being tough on them because we ask for detailed records, but to us, it is a way to learn about their activities, challenges, etc. But still, we are doing well. Last month the whole company reduced the difference between budget and expenditure from 23% to 18%. This is an immense success. I think they [EMEA] could follow the procedures we asked for. With success like this, I think they will start seeing that our way is proven and reliable […] Our plans for the next three months is to further reduce the difference [between budget and expenditure] to 15%. […] One specific plan for the coming month is to increase the volume of our contracts by 10%. We asked EMEA to do this by integrating sales and services. It is a project that is new, but will eventually become the norm…"

Interviewer: "…what have you achieved in the past month and what do you have in store for the future?"

Interviewee 2: "…we [UK branch]'ve been very busy… since last time, we are still trying to reach the hospital directors who are not placing their colonoscopy and endoscopy orders with us. It is of course important to reach individual practitioners, but our competition is obtaining much bigger sales through selling to hospitals. Those guys make massively bigger orders, they are returning costumers, and they spend a lot on repairs and maintenance. […] The Japanese fellows don't even care to listen to this. It's just budget reports with them… Every month! I mean, what other company asks for budgets this often? It is bloody ridiculous… […] It is impossible to sit in your office in Tokyo and order me in London to tell my clients that this is all we have and we do not even know what the new products are going to be… […] we did manage to reduce the difference [between budget and expenditure] by 5%, which is an interesting story by itself. […] I sent my team on a training course in Budapest, but didn't record it in this month's expenditure. Instead, it will show in next month's… We are merging our offices next month, which means a significant reduction in costs, which will offset the training spending… […] The Japanese want numbers, we give them numbers…"

These excerpts reflect the characteristics of the two kinds of narratives found in this research. The narratives produced by the HQ and told to subsidiaries focus exclusively on economical achievement explained in the form of financial objectivity. They do not inform of the state of new product research and development, do not refer to, or reinforce the identity of the MNE, and do not show interest in the strategic conditions of the subsidiaries. EMEA, on the other hand, has produced narratives that are anchored on their strategies regarding the financial goal set by HQ. The desire to feel successful is

deeply rooted in this case, as even in instances that EMEA fails to reach the goal set by HQ, their narrative is modified to reflect on a success in another aspect or direction.

3.6. The Main Issues

Cultural differences. The main cause for tension mentioned by the managers and employees is 'cultural' difference; the longer the employees have been with the company, the more they feel unappreciated by the recently hired team. The family-like culture of the Japanese organization makes a vivid contrast to the success and achievement oriented culture of the U.S educated managers in the subsidiary. Furthermore, since people are coming from a variety of geographical locations, they tend to attribute the majority of problems to their cultural differences. These differences are manifested in many ways. For instance, there is loss of trust because of random-looking procedures of praise and promotion, threatening work environment because of language related provocations, and break down of communication.

While the Japanese HQ has a clear and rather rigid approach to structuring the organization, the same level of structural rigidity does not apply to the EMEA subsidiary. From the interviews with managers who have been with the company for more than 10 years, it seems that the latest managerial changes, i.e. bringing in the recently hired top management team, has left the EMEA subsidiary in a complex situation, with a dramatic increase in the number of decisions that must be made. On one hand, there is a noticeable clash between the more formal and hierarchical structure in the HQ, and the less formal structure in EMEA. On the other hand, the information about the structure is not clearly or formally communicated from HQ to EMEA.

Finally, there is a big debate in the HQ as well as EMEA about the size and structure of the entire organization, with one camp advocating for a big and strong organization and the other campaigning for a small and agile one. The topic of this debate obviously reflects a critically important disagreement regarding the firm's organizational structure. Based on statements from EMEA management and HQ members, there is a clear gap between what the two sides perceive as their goals; on the EMEA side, the emphasis is on adaptability to the environment, high independence, and achieving short term goals. On the HQ side, it is all the opposite: emphasis on efficiency, hierarchy, and long-term goals.

Unclear communication. As for communication, it is not just the common daily conversations that seem to suffer from the above-mentioned cultural problems. On a higher level, it is observed that when it comes to general understanding of the brand, the vision and mission, as well as the main values and goals of the organization, there are neither clear channels of communication, nor clear attempts to build one. Even though in theory there are designed communication channels, in practice they are not used, either because they are not taken seriously, or because they are, in fact, not functional. It appears that smaller sub-groups have been formed in the organization – either based on functional or personal acquaintance – that exchange information about issues and updates, while leaving the rest of the organization in the dark. A common complaint is that many of the employees, especially those without the network of professional and personal connections, have to learn about the new strategies, changes, and decisions, through the international media, which, understandably, creates dissatisfaction and mistrust. In addition to that, more common problems that are main consequences of poor communication arise in the organization, such as lack of knowledge sharing regarding best practices, innovative ideas, and general guidelines on problem solutions.

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When all is said and done, it could be argued that the underlying demotivating factor for the individual managers is the misalignment of expectations and demands on various levels. On one hand, people do not know exactly what they are supposed to deliver to their regional managers, and on the other, they are not committed to the better known more general HQ expectations either, since, to them, there is no obvious link between reward and positive (or constructive) behaviour. The 'orders' that come from HQ are seen as unrealistic and fussy, while the more local strategies are criticized as being too tough and one sided. Responding to that criticism, Japanese HQ claims that the 'orders' are mere suggestions and they are actually looking for feedback from the EMEA managers via comparing actual outcomes with documents on forecasts for future profit and expenditure. However, on the other side of the story, EMEA managers claim that their voice is not heard at HQ, and they are mostly burdened by HQ's rather pointless demands and orders.

R&D and market orientation. One of the main complaints of EMEA managers relates to their inability to respond to their local markets and clients. They, rightly, claim that since they are in direct contact with the end users/buyers and the environment in which they have to perform, they are the best people to have a say on what R&D needs to focus on. This proves to be a major problem, since the R&D labs are exclusively at the HQ and are ran independently by the Japanese HQ. Furthermore, since there are no direct lines of communication between the EMEA team and R&D, even in instances where R&D's projects are in fact aligned with the needs of EMEA markets, the mutual ignorance of these facts becomes counterproductive. This issue seems to be one where the top managers of the EMEA subsidiary do not have any hope of improvement in sight.

In summary, several observations could be distilled. First, it should be mentioned that the EMEA subsidiary ended as the highest performing subsidiary in the MNE despite the

obvious issues, complaints, and the chaotic nature of communications between EMEA and HQ. At the end of this study, the EMEA subsidiary managed to outperform all other subsidiaries, and received various rewards from the Japanese HQ. It is therefore interesting to gauge the elements of narratives that contributed to that outcome.

EMEA's communication with the Japanese HQ favoured a combination of ambiguity regarding process control while admitting rigid control and commitment on observable financial outcomes. EMEA kept HQ content by delivering financial reports exactly the way the HQ wanted, meanwhile challenging them regarding procedure to gain more autonomy. EMEA created (some) ambiguity on process by delaying reports to HQ for a while – for example, EMEA would delay information on spending on equipment, or customer satisfaction, but would then usually compensate that with a bigger contract, or more sales.

Another way EMEA would create ambiguity was to talk about overcoming 'the challenge' while the specifications and attributes of 'the challenge' would keep on changing throughout time (culture, communication, R&D, sales, integration, etc.) It appears that the balance between local autonomy for EMEA and the rigid structure HQ imposed is gained through an interesting communication strategy that put a premium on local autonomy regarding daily operations. That is, EMEA would consistently communicate a solid image of their goals and operations to HQ (firmly committing to agreed final objective of profitability), while taking advantage of any communication blind spot or loopholes to get some space to explore the possible advantages of autonomy. In that regard, the relation between EMEA and HQ seems to mimic a market like construction with fairly high-powered incentives. Following a similar logic, also EMEA's management style offered lots of autonomy to its lower level managers, but no excuses were accepted for not delivering as agreed – the result would mean everything.

The constant change of the ultimate objective of the organization from the perspectives of EMEA managers seems to be a fairly interesting observation in this case study. There would be no admission of failure, even though many of the earlier goals were never achieved, not even approached. Instead, the modifications of the goals keep the individuals going for a while, treating them as winners, and giving them more opportunities to explore and benefit from structural loopholes provided by loose process control.

3.7. Discussion

There are numerous distinct narratives, created by different actors, which focus on the process of setting and reaching a final goal. The content of these narratives reveal how different views and strategies co-exist simultaneously in the organization, even when actors are trying to achieve the same goal. From the narratives obtained for this study, it is distinct that a combination of freedom to create alternative stories and the responsibility to uphold a set of clear and rigid requirements, are the basic building blocks of each narrative. In situations where the desired final goal is clearly defined, managers practice their freedom in creating various narratives that change from one point in time to the other, while keeping the final goal as fixed. On the other hand, if the procedures to reach a certain goal are communicated as the most important priority to the managers, they will then exercise their need for freedom to create numerous goals to fit those fixed procedures.

There are subtle changes from one story to another; as the author repeated the interviews with the EMEA managers, it became clear that if there is one constant in the stories told from the beginning to the end of the study, it has to be the narrative of success in change situation. Time after time the interviewees gave different plans of action for the future,

which happened to be falsified by their actual performance. However, they managed to stick to the initial purpose: success. As mentioned in the previous section, since A-Med was threatened by disintegration, the survival of any and, perhaps, all EMEA managers depended on their reported success. One might argue that this apparent success could have been merely the interpretation of HQ, but since the reporting means were rigid, clear, and almost inflexible, such conclusion is not backed up by evidence from the case. The most probable explanation comes from dissecting the narratives of the managers and comparing them to Schutz' theory of intentional action. Not only was the purpose fluid and vague enough to be transformed from one situation to another, it was also firmly grounded on succeeding on the terms required by the Japanese HQ. The mental projects for each of these actions were indeed based on the knowledge at hand, which the managers would have from their previous experiences and challenges, however, since some of the situations they were facing were outside their "knowledge at hand" zone, they had to improvise, assuming the closest possibility to what they had faced before. This creativity, vagueness in plan, and uncertainty, would allow them to regroup and revise the mental projects of action while keeping the same purpose. As the creators of their narratives as mental projects, quite like any other author, EMEA managers hold the purpose of the act(s) as the glue to keep the story together, and the turbulences in plot deem manageable as long as there is a unifying theme that is not in conflict with the parallel themes of other stories, that is, those of the fellow managers.

3.8. Closing and Implications

The project of change in an organization has been viewed from diverse angles. Through the longitudinal case study of an international firm at the time of change, the author has observed and recorded the narratives of the managers regarding how they handle the

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uncertain and risky situation of change and emerge prosperous. The closest theoretical lens to the observed phenomenon comes from Alfred Schutz' theory of intentional action, in which an action is comprised of a purpose, a mental project, and the execution of the act. The focus of this case study has been mainly on the first two elements, that is, the purpose and the mental project. By comparing the narratives of the managers to the purpose and plans for their action, one can clearly see that an actor devising an action resembles an author writing a story. This statement contributes to our understanding of the complex topic of decision making and change, allowing us to control and manipulate the events in the process of change to our advantage. In addition to the obvious rhetoric of change, viewing actions as narratives would prompt a combination of rigid clarity and flexible vagueness in stories and action plans. For example, depending on the goal of the change, one could emphasise either on the purpose of an action or the processes leading to the final goal; the first will be more likely under an improvise-able action plan, allowing the "author" to take liberties with the sequence of the plot, and the second would allow the "author" to build up the purpose or the morale of the story once s/he gets hold of enough information about the required plot. It is important for practitioners and scholars to recognise the need for allowing enough vagueness in the change goals or in the processes, as keeping both rigid would not be a reasonable option. The contextual demands and uncertainties of change would require the actor to make decisions, in one form or another. Handing down a detailed point by point plan of change where nothing is negotiable would not ease the project of change, as individuals would have to compromise either the process or the final goal, in order to cope with the demands of their ever-changing environment.

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4

The Tale of Two Cases: Expanding the Behaviour Approach to the Firm

4.1. Abstract

The rise of Asia and globalization in general has advanced our understanding of how businesses can adapt to the changing competitive conditions, and how they can adjust their strategy, marketing, governance, and other business functions. Business practices have, perhaps not surprisingly, adapted faster than business scholars to the changes in competition, signifying a need for the internationalization of internationalization theory itself. We suggest that a behavioural approach is a fruitful framework as it can easily accommodate several elements important to Asian practices. Based on case study of a Japanese and a Chinese MNE, we can distil a few insights that jointly contribute to expanding the behavioural approach to account for internationalization processes in Asian firms. We view internationalization is essentially an adaptive process characterized by prominent challenges associated with differences in institutional and cultural practices, and provide a new way of thinking of such processes. The internationalization process is a path dependent process where the actual paths that can be taken are influenced by a mixture of random events and firm strategic decision making

and policies. Our case studies highlight many of such mechanisms relating to psychic distance, organizational design, and control of international expansion.

4.2. Introduction

"…international business research has succeeded because it has focused on … a number of big questions which arise from empirical developments in the world economy. The agenda is stalled because no such big question has currently been identified. … Without a close interaction between theoretical development and empirical reality, international business could become a merely an area of application for applied concepts from other disciplines" (Buckley, 2002, p. 370).

Globalization in all of its aspects, the rise of Asia, and the changes in the global business landscape, post challenges, puzzles, and paradoxes, not only for global economies and businesses, but also for theories that aim to advance our understanding of business practices as they become international. Firms have to constantly adapt and adjust to new, different and changing political, economic, social, technological, legal, and environmental issues[6], and are, at the same time, shaped by fundamental cultural and psychological aspects of the societies in which they are located.[7] For example, an organization in the west expanding internationally into Chinese markets cannot rely on simply continuing its western ways of doing business, but must carefully consider the

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6 That is, all the challenges in the firm's external environment that are identified in the commonly used PESTEL framework. In addition to these, we also believe there is a case for pointing to changes in the firm's internal conditions, e.g. related to various organizational changes.

7 Crozier's book (1967) indicated how bureaucracies are influenced by their culture and how differences in bureaucracies in nations (French vs Russian and American) can be explained at least in part by reference to their cultural elements and hierarchical styles – an insight that should apply nicely to the issues and processes of internationalization of organizations.

particular cultural, strategic and behavioural differences associated with doing business in China (Ambler, Witzel, & Xi, 2000).

Moreover, the rise of Asian firms post challenges for our *scholarly theories of business* and how firms internationalize. The common distinction is made between East and West, viewing Asian business organizations as very different from western ones – for instance, they seem to be relying on different governance mechanisms (Zhou, Poppo, & Yang, 2008; Yang & Wang, 2011). There are more variances to consider, though, since the East/West distinction falls short at times, as we see in our two cases. We take this challenge to be an opportunity to internationalize parts of internationalization theory, and to advance both scholarly and practical studies of Asian firms. One step in that direction, we suggest, is to build on, and expand, a behavioural framework to account for internationalization processes in Asian firms. We have in mind an approach that is empirically realistic, interdisciplinary and integrative – in the spirit of the 'old' behavioural theory of Cyert, March and Simon. Hopefully this can help bridge the huge gulf between theory and empirical reality in the international business field which Buckley points to.

In this paper, we can distil several insights that jointly contribute to expanding the behavioural approach to account for internationalization processes in Asian firms. We use two mini cases to illustrate the cultural and organizational aspects of internationalization decisions. We illustrate how the two Asian firms of our study view their situation internationally, how their priorities differ, and what final decisions they make to perform in the international context. Through utilizing data from observation, interviews, as well as content and historical analysis, we aim to build positive theory

using mixed methods.[8] Such pluralism in method is consistent with Simon (1954) as well as the rich roots of the IB field itself (Birkinshaw, Brannan, & Tung, 2011). Central to our theoretical query is an interest in identifying the determinants of path dependence in internationalization decisions. We provide a new way of thinking of such processes. We view an internationalization process as a path dependent process where the actual paths that can be taken are driven by a combination of random events and firm policies. Our case studies highlight several of such mechanisms.

Specifically, we examine internationalization in a Japanese and a Chinese MNEs and find that there are striking contrasts, but also notable similarities. Rather than focusing on antecedents of such preferences (Mahnke, et. al., 2012), we explain the contextual drivers of decisions, be it the foreign environment they are active on, or the ideological bent of the HQ. Through contrasting means, both companies show a strong preference for agility and adaptivity. The Chinese aim for it through central organization and design, while the Japanese reach it through a strong focus on achieving their financial objectives and performance excellence. These observations bring us to a closer scrutiny of prior internationalization theory in the light of our observations, a discussion that can be centred on three topics – psychic distance, organizational design, and control of international expansion – where we see discrepancies between theory and cases.

The remainder of the paper is organized as follows. In section 2, we review the relevant prior literature, section 3 presents our case study of a Japanese MNE, section 4 highlights

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8 Case 1 uses case study as explorative and descriptive research; builds on more than 30 interviews and dozens of participant observations in meetings over a period of two years, as well as culture and climate survey results from the beginning of the study, along with other documents on the vision and mission of the branch under investigation. Rhetoric analysis and thematic coding were used to make sense of the ongoing challenges of the organization. Case 2 drafts on content analysis of more than 500 pages of company speeches, employee handbook and reports and books covering the history of the organization.

the case of our Chinese MNE, and section 5 provides a discussion on elements of a behavioural approach that can be extended to Asian firm.

4.3. Literature Review

As the field of international business has advanced over the last several decades, its development to some extent mirrors the development of the strategy field, albeit with some time lag. While strategy research used to be fuelled by the need to think about practical problems in a structured way, it has now advanced to develop theory that can explain competitive heterogeneity, i.e. why firms have differential performance in competitive markets (Rumelt, Schendel, & Teece, 1994; Rumelt, 2011). In contrast, research in internationalization remains closely related to practice as it advances theories that can account for various observed difficulties that firms encounter as they go abroad. That is, the field has focused on how firms overcome knowledge barriers – as well as other barriers – as they scale up their presence in foreign markets (Hutzschenreuter, Pedersen, & Volberda, 2007).

In their review of research on international business, Rugman, Verbeke, & Nguyen (2011) provide a useful summary of how the field has matured: from a focus on international trade to analysis of how multinational enterprises employ firm specific advantages as they scale up operations across borders. Theories about international trade basically claim that countries differ with respect to factor productivity. From the point of view of economic theory, differences are expressed as productivity differences that stimulate gains from trade. Michael Porter (1990) advanced a version of international trade theory to account for differences at the level of industries. Why is it that some industries in some countries are particularly successful? According to Porter (1990), the differences can be attributed to differences in strategies, organization design, and the productivity from the underlying

resources that firms employ, i.e. human resources, physical resources, knowledge resources, capital resources, and infrastructure. Some countries have conditions (natural, social, as well as political) that stimulate superior performance on some or these dimensions. Porter's (1990) view on industry advantage is a natural stepping-stone from competitiveness at the country level to competitiveness at the firm level.

Dunning's (1977, 1988, 1998) eclectic paradigm represents a decisive move from country specific advantages towards the multinational enterprise (MNE) as a unit of analysis (Eden & Dai 2010; Rugman et al., 2011). According to the eclectic paradigm, MNEs engage in foreign direct investments (FDIs) across borders when they have advantages along three dimensions: (O)wnership – superior resources and ways of organizing trade, (L)ocation – superior country specific conditions as also elaborated by Porter (1990), and (I)nternalization – superior ways of organizing internal transfer of resources relative to market exchange.

The dimension of the process of *internalization* is particularly important from an organizational point of view because it is here that the effect of firm specific learning and organization design will ultimately influence performance. Internationalization is a continuing process, not a goal in itself. Drawing on the behavioural theory of the firm (Cyert & March, 1963), researchers in the Uppsala school (Johanson & Vahlne, 1977, 1990; 2009; Johanson & Wiedersheim-Paul, 1975) have explained that internationalization is a fairly slow, incremental process where firms gradually scale up their international presence as they gain experience, e.g. from trading with a foreign agent, to establishment of a local sales office, to direct investment in production facilities (Aharoni, 1966; Rugman et al., 2011). The underlying idea is that firms take a path of least resistance as they gradually overcome the barriers to crossing foreign borders, i.e. firms internationalize like "rings in the water" (Madsen & Servais, 1997). A similar idea

is that firms cross borders with the least psychic or cultural distance, and use their experience as they gradually proceed to markets that are more distant (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975).

Thus, it is commonly observed that knowledge about foreign markets must be gained through going through an internationalization process (Rugman et al., 2011). It is also broadly agreed that such processes are incremental and path dependent as they build on knowledge gained through experience (Hutzschenreuter et al., 2007; Rugman et al., 2011). An impressive amount of research effort has been spent on describing the numerous ways in which these processes are actually path dependent. We know a lot about how firms scale up their international operations. However, we know less about why they aim at achieving a certain level of internationalization, and even less about the determinants of long-term success in maintaining international operations (Hutzschenreuter et al., 2007). Not only does the literature focus more on "the problem of becoming a multinational than on strategies of established multinationals" (Hutzschenreuter et al., 2007, p. 1057), it also downplays the role of organization design, for example, with respect to internal division of labour, and internal transfer of resources (Rugman et al., 2011).

Another concern regarding the basic construct of internationalization, as a learning process, is that actual observed cases may not follow the theory very well (Rugman et al., 2011). While the theory predicts that firms should minimize psychic and cultural difference and therefore target neighbouring countries as they begin to scale up international operations, several observed cases violate this claim (e.g. Ruigrok & Wagner, 2003; Rugman, 2005). While the idea that firms take a path of least resistance as they gradually overcome the barriers to crossing foreign borders is intuitive and

attractive, it appears that researchers have not yet been able to identify a valid distance (or proximity) measure.

Below, we present two cases – a Japanese and a Chinese firm – that further illustrate this conundrum. While these countries are geographically close, the two cases show that, on relevant dimensions regarding principles of management and organization design, they are very different. For another example, the notion of "born globals" is used to describe firms that from inception have operations in multiple countries (Knight & Cavusgil, 1996; Madsen & Servais, 1997; Knight, Madsen & Servais, 2004). Clearly, this observation seems to defy the common idea in the internationalization literature that scaling up the firm's international presence is a slow, incremental and path dependent process. Or perhaps, it is yet another symptom that the metric used to measure distance – or barriers – in international expansion is problematic. Thus, Rugman et al. (2011) suggest that patterns of internationalization may be explained by a measure of compounded distance including cultural, institutional, economic and geographic distance components as well as possible (nonlinear) interactions among these components.

In the literature sketched so far, the MNE has been the unit of analysis, i.e. the MNE has been treated like a unitary actor. Over the last two decades, the literature has forcefully moved from the corporate level to consider the underlying subsidiaries that constitute the business units of the MNE (Birkinshaw, 1996, 1997). This development has paved the way for analysing each subsidiary with the RBV framework developed in strategy research (Rumelt, 1984; Barney, 1991). Thus, the resource profile of each subsidiary can be analysed with respect to their possible contribution to overall competitive advantage. The added complication is that complementarities among resources in a collection of subsidiaries must also be considered (Birkinshaw & Pedersen, 2009). This development highlights the role of subsidiary management as well as the role of organization design in

allocating resources and integrating contributions from subsidiaries. However, the role of organization design (in leveraging the value of resources) within subsidiaries is still downplayed.

Theories in the literature have been derived from empirical observations of Western firms. For example, the Uppsala model of the internationalization process of the firm was a descriptive approach (Johansson & Vahlne, 2009) developed from observations of Scandinavian firms with small domestic markets. For another example, the notion of "born globals" was developed from empirical observations of firms with mall domestic markets (Rugman & Almodóvar, 2011). These examples are symptomatic of a tendency in the internationalization literature to develop theory around empirical observations, and in both cases, theory has failed when it was confronted with empirical observations from different countries. A related problem is that context matters for generalizability of theory and the importance of the types of distances involved (Ghemawat, 2001). When an American firm expands its operations to Shenzhen in China or Tokyo in Japan, the geographical distance is similar, but the cultural difference is immense. The other way around, when a Japanese or a Chinese firm expands internationally, it is likely that their strategies and modes of operating reflect a systematic approach that differs from any American or Scandinavian firm. Thus, we need theory that can account for general principles conditional on international context and cultural differences, as well as differences in how the dissimilar cultures influences the psychologies in the market (as Walmart learned the hard way when it realized that people in China do not make decisions about products the same way they do in Kansas).

Our brief review of the internationalization literature highlights impressive advances as well as notable gaps. Among the most important gaps, we wish to highlight that the role of organization design has been downplayed, both in international expansion, and as an

important determinant of long-term success in maintaining international operations. By downplaying the role of organization design, we mean that MNEs have been treated like unitary actors, or as a collection of subsidiaries that, in turn, have been analysed as unitary actors. We believe that downplaying the role of organizational design as a determinant of internationalization also has implications for the failure of the notion of distance (or proximity) to describe observed patterns of internationalization. While distance in terms of fit of a resource profile relative to demands in a particular market is important, we also find that organization design has an essential role in leveraging these resources in daily operations as well as in maintaining control of operations as the firm expands, or aims to maintain, its international presence. For example, the type of learning in organizations could be designed to promote vicarious learning for the HQ through absorbing the contextual signals of the foreign subsidiaries, or designed to focus on monitoring the foreign subsidiaries in order to maintain a uniform ideology and identity throughout the HQ and its branches (Huber, 1991; Manz & Sims, 1981). Below, we further advance our approach.

4.4. Case Study 1 – A Japanese MNE

The first case study is on a Japanese MNE, which we call A-Med in this paper.[9] It was established in 1930s, with headquarters in Tokyo, and specialized in manufacturing and sales of healthcare and life-care products. It has branches in the Americas, Europe, Middle East, Africa, and Asia-Pacific, with more than 20,000 employees worldwide. We are here looking at the firm's subsidiary in Europe, Middle East, and Africa (EMEA).

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9 The case study of A-Med was conducted in the period of 2011-13 (see more detailed description in introduction).

Based on top management's 2011 internal survey, the main challenges facing A-Med are related to two basic areas: profitability and identity. The first area captures the financial performance, and ultimately survival, whereas the second area points to a company-wide need to be recognized in the eyes of the end costumers and other stakeholders. The internal survey suggests that the brand and the overarching integrity of the company's identity is neither known to their employees nor their clients.

A-Med is owned solely by Japanese citizens – all middle-aged and male – with a strong and perhaps over-emphasized focus on detailed information regarding financial activities, formal communication through budget and expenditure forms, and informal communication through their 'representatives' in almost every area of operation. In contrast, top management of the EMEA subsidiary is an international team, consisting of people who are mostly educated – and with prior professional experience – in the US. All EMEA's top managers are younger in age, and   the gender balance is not as skewed as is in the group of owners. The EMEA top managers jointly cover a rather broad area of focus, which is tailored to the country they are working in. For example, strong R&D-focus in Japan, Legal requirements in the UK, Services in Germany, Sales in France, Cost reduction in Italy, etc.

In the paragraphs below, we briefly explain the main problems observed during the two-year study of A-Med's EMEA subsidiary. An interesting observation is that even though problems such as tensions relating to structure, attitude, and communication are persistent, the EMEA subsidiary performed successfully at the time our case study ended (as assessed by Japanese HQ). Despite the success of EMEA, our case study revealed several problems, which are here grouped under three main categories – cultural differences, unclear communication, R&D and market orientation – that emerged during the case study.

<u>Cultural differences</u>. The main cause for tension mentioned by the managers and employees, is 'cultural' difference; the longer the employees have been with the company, the more they feel unappreciated by the recently hired team. The family-like culture of the Japanese organization makes a vivid contrast to the success and achievement oriented culture of the U.S educated managers in the subsidiary. Furthermore, since people are coming from a variety of geographical locations, they tend to attribute most problems to their cultural differences. These differences are manifested in many ways. For instance, there is loss of trust because of random-looking procedures of praise and promotion, threatening work environment because of language related provocations, and break down of communication.

While the Japanese HQ has a clear and rather rigid approach to structuring the organization, the same level of structural rigidity does not apply to the EMEA subsidiary. From the interviews with managers who have been with the company for more than 10 years, it seems that the recent managerial changes, i.e. bringing in the recently hired top management team, has left the EMEA subsidiary in a complex situation, with a dramatic increase in the number of decisions that should be made. On one hand, there is a noticeable clash between the more formal and hierarchical structure in the HQ, and the less formal structure in EMEA. On the other hand, the information about the structure is not clearly or formally communicated from HQ to EMEA.

Finally, there is a big debate in the HQ as well as EMEA about the size and structure of the entire organization, with one camp advocating for a big and strong organization and the other campaigning for a small and agile one. The topic of this debate obviously reflects a critically important disagreement regarding the firm's organizational structure. Based on statements from EMEA management and HQ members, there is a clear gap between what the two sides perceive as their goals; on the EMEA side, the emphasis is

on adaptability to the environment, high independence, and achieving short term goals. On the HQ side, it is all the opposite: emphasis on efficiency, hierarchy, and long-term goals.

Unclear communication.   As for communication, it is not just the common daily conversations that seem to suffer from the above-mentioned cultural problems. On a higher level, it is observed that when it comes to general understanding of the brand, the vision and mission, as well as the main values and goals of the organization, there are neither clear channels of communication, nor clear attempts to build one. Even though in theory there are designed communication channels, in practice they are not used, either because they are not taken seriously, or because they are actually not functional. It appears that smaller sub-groups have been formed in the organization – either based on functional or personal acquaintance – that exchange information about issues and updates, while leaving the rest of the organization in the dark. A common complaint is that many of the employees, especially those without the network of professional and personal connections, must learn about the new strategies, changes, and decisions, through the international media, which, understandably, creates dissatisfaction and mistrust.   In addition to that, more common problems that are main consequences of poor communication arise in the organization, such as lack of knowledge sharing regarding best practices, innovative ideas, and general guidelines on problem solutions.

When all is said and done, it could be argued that the underlying demotivating factor for the individual managers is the misalignment of expectations and demands on various levels. On one hand, people do not know exactly what they are supposed to deliver to their regional managers, and on the other, they are not committed to the better known more general HQ expectations either, since, to them, there is no obvious link between reward and positive (or constructive) behaviour. The 'orders' that come from HQ are seen

as unrealistic and fussy, while the more local strategies are criticized as being too tough and one sided.

Responding to that criticism, Japanese HQ claims that the 'orders' are mere suggestions and they are actually looking for feedback from the EMEA managers via comparing actual outcomes with documents on forecasts for future profit and expenditure. However, on the other side of the story, EMEA managers claim that their voice is not heard at HQ, and they are mostly burdened by HQ's rather pointless demands and orders.

R&D and market orientation. One of the main complaints of EMEA managers relates to their inability to respond to their local markets and clients. They, rightly, claim that since they are in direct contact with the end users/buyers and the environment in which they must perform, they are the best people to have a say on what R&D needs to focus on. This proves to be a major problem, since the R&D labs are exclusively at the HQ and are ran independently by the Japanese HQ. Furthermore, since there are no direct lines of communication between the EMEA team and R&D, even in instances where R&D's projects are in fact aligned with the needs of EMEA markets, the mutual ignorance of these facts becomes counterproductive. This issue seems to be one where the top managers of the EMEA subsidiary do not have any hope of improvement in sight.

First of all, it should be mentioned that the EMEA subsidiary ended as the highest performing subsidiary in the MNE despite the obvious issues, complaints, and the chaotic nature of communications between EMEA and HQ. At the end of our study, the EMEA subsidiary managed to outperform all other subsidiaries, and received various rewards from the Japanese HQ. It is therefore interesting to gauge the elements of organization design that contributed to that outcome.

EMEA's communication with the Japanese HQ favoured a combination of ambiguity regarding process control while admitting rigid control and commitment on observable

financial outcomes. EMEA kept HQ content by delivering financial reports exactly the way the HQ wanted, meanwhile challenging them regarding procedure to gain more autonomy. EMEA created (some) ambiguity on process by delaying reports to HQ for a while – for example, EMEA would delay information on spending on equipment, or customer satisfaction, but would then usually compensate that with a bigger contract, or more sales.

Another way EMEA would create ambiguity was to talk about overcoming 'the challenge' while the specifications and attributes of 'the challenge' would keep on changing throughout time (culture, communication, R&D, sales, integration, etc.) It appears that the balance between local autonomy for EMEA and the rigid structure HQ imposed is gained through an interesting communication strategy that put a premium on local autonomy regarding daily operations. That is, EMEA would consistently communicate a solid image of their goals and operations to HQ (firmly committing to agreed final objective of profitability), while taking advantage of any communication blind spot or loopholes to get some space to explore the possible advantages of autonomy. In that regard, the relation between EMEA and HQ seems to mimic a market like construction with high-powered incentives. Following a similar logic, also EMEA's management style offered lots of autonomy to its lower level managers, but no excuses were accepted for not delivering as agreed – the final result would mean everything.

The constant change of the ultimate objective of the organization from the perspectives of EMEA managers seems to be a fairly interesting observation in this case study. There would be no admission of failure, even though many of the earlier goals were never achieved, or not even approached. Instead, the modifications of the goals keep the individuals going for a while, treating them as winners, and giving them more opportunities to explore and benefit from structural loopholes provided by loose process

control. As we shall see, this mode of operations is sharply at odds with the way the Chinese MNE in our study handled relations to its subsidiaries.

4.5. Case Study 2 – A Chinese MNE

Our second case is on a Chinese telecom company, which started modestly in 1980s in Shenzhen, let's call it T-Com.[10] At the very beginning it was a private enterprise telecom equipment manufacturer for local Chinese companies. Its most obvious competitive advantage was, early on, low cost engineering, rather than low cost manufacturing (Zeng & Williamson, 2003). T-Com expanded rapidly from rural to developed areas, and then from domestic to international markets. It is now one of China's most important organizations operating in over 170 countries, a position gained through an aggressive internationalization campaign.

Founded by a charismatic leader (who was demobilized from the Chinese army before founding the company), T-Com's growth was based on a strong competitor focus, and a keen understanding of the company's strengths relative to the opportunities and threats present in its broader environment (e.g. political and technological environment). The leader is very engaged in the day-to-day business and highly focused on competitors' performance. Thus, he would often visit other companies for inspiration.

The leader stated that he wanted to combine the hardworking spirit from the Japanese, the strict work ethic from the Germans, and the creative and innovative spirit of the US,

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10 This case study is based on content analysis of 500 pages of speeches by the company founder, as well as analysis of other source material, including an employee handbook and 3 business cases written about them.

while maintaining a clear Chinese cultural edge. [11] At the same time, Maoist and communist ideology drove much of T-Com's early success. The leader adopted a classic Maoist mass campaign strategy for growth domestically – occupying first the countryside to encircle the cities. By deploying large numbers of staff into rural provinces where competitors had no presence, he could build alliances with local outfits, establish joint ventures with other firms, and seize monopoly on hardware distribution.

T-Com's leader pursued and built domestic capabilities before starting the process of internationalization – thus developing long term capabilities and networks (March 2006), rather than plunging into an international adventure demanding a quick, and somewhat random expansion of the firm's resource base. The firms culture and its approach to internationalization has been described as the 'wolf spirit' which includes at least three major aspects: a sensitive nose for good opportunities, mounting an attack when an opportunity emerges – aggressive and adamant, firmly grabbing onto prey and not letting them go – and persistence during attack.

T-Com's approach to internationalization – as well as its domestic strategy – has been built on and cultivated by a keen awareness and understanding of the firm's own strengths and weaknesses, and that of their competitors. That is, T-Com's internationalization path has not solely been based on the firm's ownership advantages as suggested by the "eclectic paradigm". The Uppsala perspective comes closer, but does not fully capture the emergent and adaptive nature of their strategy and internationalization path.

Cultural differences. To better understand T-Com's internationalization strategy, it is helpful to look at the Chinese approach to strategic decision-making and action (Jullien,

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11 Asked about who had influenced him, he responded "Chairman Mao and President Louis Gerstner", the former CEO of IBM; Mao for his guerrilla tactics and Gerstner for his 'customer centric' approach.

2004). In Western thought as well as most internationalization theory, we insist on a sharp dichotomy between theory and reality. A description of a strategic action, or, for that matter, any action, is viewed from the perspective of an external observer in a way that is distinct from the action itself. This is so ingrained in western thought that we no longer question it.[12]

The fundamental challenge in understanding how the Chinese approach to decision making differs from western thinking is both a philosophical and a practical one. Westerners tend to think of reality in terms of distinct (or modular) ideal forms, which obviously leads to failure when reality is more complex than its representation. By contrast, Jullien finds that the Chinese never establish a framework of ideal forms and models, but see reality as a continuous process that results from the interaction of factors that are both opposed and complementary. Order, therefore, does not come from a model (or from a deviation from a model) but is contained within reality itself, therefore transcending the theory-practice relationship. To explicate what that means for decision making, Jullien uses images and proverbs that were used by ancient Chinese authors and illustrate that (strategic) action is not so much about 'fixing' a given situation or impose a model on reality, but rather about a continuous unfolding process, to which one must always adapt, see coherence in situations, and profit from how they evolve.[13] As he notes:

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12 As Jullien writes: "This is one of the most characteristic moves made by the modern Western world (or maybe quite simply the world as a whole – if it has been standardized in accordance with the Western model): a revolutionary designs the model of the city that must be built; a soldier sets out the plan of war to be followed; an economist decides on the growth curve to target; and, all of them, whatever their respective roles, operate in a similar way. Each one projects upon the world an ideal plan that will then have to be incorporated into factual reality…. Our inclination is to extend to everything this model-making" (2004, p. 3).

13 As he notes: "From this perspective that we have discovered, we could deduce an alternative way of behaving. Instead of constructing an ideal Form what we then project onto things, we could try to detect the factors whose configuration is favourable to the task at hand; instead of setting up a goal for our actions, we could allow ourselves to be carried along by the propensity

"From this perspective that we have discovered, we could deduce an alternative way of behaving. Instead of constructing an Ideal Form that we then project onto things, we could try to detect the factors whose configuration is favourable to the task at hand; instead of setting up a goal for our actions, we could allow ourselves to be carried along by the propensity of things. In short, instead of imposing our plan upon the world, we could rely on the potential inherent in the situation" (p. 16).

Thus, he finds that Chinese thinking grows around two basic concepts: the configuration or the situation ('xing') that unfolds and can be used to one's advantage, and the idea of 'potential' ('shi') that can be used to one's advantage. A key to strategy is thus to rely on the inherent potential of the situation and to allow it to evolve and become part of its evolution. Or, in the words of Leites and Pye, "ride with external forces", it is more of a "non" effort than a deliberate planning process (Pye & Leites, p. 4).

From that perspective, internationalization is something emergent and adaptive where opportunities are created and utilized in an organic way, whenever it is possible. The company learns through FDI and globalization and uses the gained knowledge to build greater absorptive capacity and ability to operate domestically and internationally. Internationalization itself becomes a learning process, less about seeing short-term profit opportunities, and more about long-term adaptive potentials. A key to strategy and internationalization is thus to understand and rely on the inherent potential of the situation and to allow it to evolve – and to become part of its evolution. This approach may be thought of as an adaptive design that aims to benefit from realizing the potential of an evolutionary process outside the control of the firm.

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of things. In short, instead of imposing our plan upon the world, we could rely on the potential inherent in the situation" (p. 16).

<u>Importance of learning from others.</u> According to Chinese philosophy, an important part of embracing the situation at hand is having a proper understanding of one's own position – and that of others – through reflection, self-reflection, and self-criticism. This is a key tenet of communist philosophy in China. The appointed leader would typically encourage employees to conduct self-criticism sessions – to be hard on themselves, but not on others – as a key to ongoing learning. For instance, in the initial stages of their internationalization, T-Com understood that a weakness of theirs was management, so they carefully studied management in organizations such as IBM and recruited consultants to help them understand the phenomenon. Because of their thorough approach, innovation and internationalization has been a slow and incremental process. They believe in gaining competence before confidence, and that growth is not necessarily the only way forward (thus, avoiding the myth that one always must grow).

Adaptiveness and agility is also built into their training programs. The firm has boot-camps where employees are asked to take an oath of "duty, honour, company, and country" when they first enter the organization (instilling a sense of loyalty and organizational identification, Simon 1991). As explained by the leader, T-Com also has ideology training: "We've established an ideology mentor training system. It's an ideology mentor system set up by the central research department's Party branch, mainly with Party members, and it was started to provide guidance to new employees".

Interestingly, the party's history is also baked into the firm's training programs. Thus, T-Com's leader demands that senior managers explicitly study lessons from the Annals of Party history: "We have cadres at the division level and higher study the book 'Hu Yaobang and the Vindication of the Miscarriages of Justice.' We need to learn about Hu Yaobang's open-mindedness, his extreme responsibility for Party endeavours, and his

spirit in courageously upholding the truth. We must also study the suffering the revolutionaries of the older generation experienced, their hopeful strong will."

Leadership style. We observed a strong relational style in leadership that is inspired by Confucius rather than Weber's notion of charismatic leadership. The leader sees secretaries as unsung heroes. He goes to trade shows and hands out flyers, and stands in line with others in the company cafeteria. These behaviours help encourage and build organizational identification and loyalty (Simon 1991, 1993).

Organizational and national loyalty. The leader of T-Com is aware that mechanisms for identifying with the larger social system – the organization and society – are powerful (indirect) ways to motivate and encourage behaviours. So, rather than incentivizing employees through short-term pursuits, the leader aims to instil a moral sense of loyalty in the group, the organization, and the corporate culture. It seems that, as Alex George (1967) suggests, it was precisely such nurturing of morale – through nurturing relations and creating loyalties – that was a key strength of the Chinese Communist Army. He also noted that, not only did the creation of social mechanisms through induction and training advance narrow competence for particular functions, but also a re-socialization that would influence them in all aspects.

As an organizational mechanism, loyalty and identification contrasts with the western notion of pursuit of self-interests as incorporated in western theories since at least Adam Smith (and prominent in, for instance, Williamson). This indicates a fundamental difference in the very conception of 'economy' and economies. Western theories and measures of economics and economic issues rely on some very basic ideas: even if modern economists can argue about rationality vs. bounded rationality, monetarism, Keynesianism, new classical macroeconomics, etc. – they mostly do not question the underlying conception of individuals pursuing utility (be it through the invisible hand of

the market or the visible feet of the institutions they are in). Firms maximize shareholder wealth and profit, or at least try to do so. But a Chinese (or Confucian) conception of economics is different. One China-scholar has argued that the 'economic principles of Confucius' consist of land, capital and 'virtuous' men. This latter concept seems quite different from our conception of self-interest. In addition, pursuing economic profit or motives are not enough – one must also have a purpose beyond oneself. That is, a firm must have a purpose beyond itself – so there is a longer term and essentially social aspect of the very meaning of Chinese economics.[14] This may explain some of the differences in organizational identification and the emphasis on culture and organization (not just profit).

4.6. Discussion: Extending a Behavioural Approach to Asian Firms

We have examined two cases – a Japanese and a Chinese MNE – that offer striking contrasts, but also notable similarities. As we have seen in the case descriptions, the ideological differences in the nature of the two firms – in terms of their organization design, control structure, and priorities – are easily detectable in the way the managers identify their companies. From the dialogues and communications of managers at A-Med, we perceive a pragmatic and sharp orientation towards profitability and financial performance, while the behaviour of the managers and the paths they take to reach their goals were neither emphasized nor discussed during the two years that we gathered data from the company. At the management meetings, the specifics of what each branch does to reach its financial targets are not of anyone's interest. Instead, the EMEA team and

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14 In "Great Learning", Confucius wrote: "The superior man must be careful about his virtue first. Having virtue, there will be the man. Having the man, there will be the land. Having the land, there will be wealth. Having the wealth, there will be its use. Virtue is the root".

their subordinates constantly focus on questions about short run cost and benefit. Evidence of this mindset is reflected in the case report and key findings presented above.

By contrast, we clearly observe a very different orientation in the narration of the case of the Chinese T-Com. The leader (note that there is a leader figure rather than a mere managerial function) and other employees spend a good deal of effort and time on elaborating their philosophy. There is an obvious way of life that they identify with, and the corporate life at T-Com seems to be a meaningful part of their personal identity. Thus, the description of the Chinese case follows from their attention to the details regarding the ideological trainings, importance of loyalty, and elaborate explanations on where such ideas come from. We find such variety in data type to be an indicator of the deep difference in how these two firms in neighbouring countries have been formed and managed.

All the loyalty, sacrifice, and allegiance that are core to the Chinese way of management are compensated by a rather blunt focus on the bottom line in the Japanese company. Rather than acting like brave soldiers, managers in the Japanese subsidiary go about covering their own backs, creating the most plausible story in retrospect to convince the HQ. In some sense, while the Chinese have dedicated themselves to "duty, honour, company, and country", their Japanese counterparts have taken an oath to protect the profitability of their individual branches, so that they can secure their jobs, perks, and prestige.

However, through contrasting means, both companies show a strong preference for agility and adaptivity. The Chinese aim for it through central organization and design, while the Japanese reach it through a strong focus on achieving their financial objectives and performance excellence. Such similarity could hint at the demands on both organizations from their task environments and broader culture, as both companies use rigid control and

reporting protocols. These observations bring us to a closer scrutiny of our two case studies in the light of prior internationalization theory where we see discrepancies between theory and cases. Based on the observations from our case studies, this discussion can be centred on three topics: psychic distance, organizational design, and control of international expansion.

Psychic distance. Internationalization theory suggests that national culture affects management practices, such as strategic decision making (Schneider & DeMeyer, 1991), leadership style (Dorfman & Howell, 1988; Puffer, 1993), and human resource management (Luthans, Welsh, & Rosenkrantz, 1993). National culture is also known to be inclined towards producing a specific organizational design (Noorderhaven & Harzing, 2003, 2008). Furthermore, geographic proximity is supposed to indicate cultural proximity, and thus less psychic distance (Madsen & Servais, 1997; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). We believe that such prediction would normally hold when it comes to individuals within a national culture because many determinants of decision-making style and behaviours are widely shared. For instance, strong factors like language, historical heritage, geographical and climate conditions, political predispositions, education systems, religion, etc., would affect most individuals in the same way, resulting in a degree of cultural homogeneity and predictability in the way they generate alternatives and make decisions. However, when it comes to a multinational enterprise, these determinants are not necessarily as homogeneous as they are within national culture.

The specific ways, be it cultural or non-cultural, in which each individual manager acts, reacts, and interacts with her task environment, with stakeholders, and with HQ, would influence the firm's development along a broad range of paths depending on personal style and talent as well as other factors that are shared within a culture. Moreover, the

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way organization design aggregates individual contributions – e.g. in decision making (Christensen & Knudsen, 2010) or search for innovations (Knudsen & Srikanth, 2014) – appears to have notable effect over and above personal and cultural factors. As illustrated in our cases studies, organization design had a notable effect regarding what kind of information that was aggregated, i.e. information regarding process in the Chinese MNE and regarding outcome in the Japanese MNE.

The upshot of our observations is that treating an MNE as a unitary actor belonging to a specific national culture may prove problematic both for theory and for empirical work. The Asian firms in our study are cases in point. While China and Japan belong to the same geographical area of Asia, the firms in our study manifest very different attributes when it comes to their organization design, control structure, and agent behaviour. Thus, along with others (Rugman et al., 2011), we suggest that the notion of psychic (or any other mono-dimensional) distance itself is of fairly limited value as a predictor of internationalization patterns. What we need is a framework, which, in addition to cultural, psychological, and geographic proximity, includes dimensions such as organization design, organizational structure, and agent behaviour. Thus, we suggest that a metric such as Rugman et al.'s (2011) compounded distance (including cultural, institutional, economic and geographic distance) should also include components that capture essential dimensions of organization design (such as information structure, task structure, and control structure).

Role of organization design. As a company extends its operations in new areas, be it geographically or otherwise, it is presented with numerous opportunities to learn from its exposure to the rather novel environments (Argote, 1999). Understanding and clearly formulating the new challenges, searching for possible new solutions to meet these challenges, and applying promising solutions to the newly encountered problems are

essential ways in which companies develop and use their knowledge base (Levinthal & March 1981; Argote, 1999). However, the role of organization design determines the type of problems the firms will most likely face, as well as the type of solutions that they are more likely to look for (Knudsen & Levinthal, 2007, Csaszar, 2013).

It seems that one major difference in how companies set up their international operations and communications is whether their HQ is inward or outward looking (Welch & Luostarinen, 1993; Korhonen, Luostarinen & Welch, 1996; Korhonen, 1999) when it comes to strategic planning. An inward-looking company would have a strong focus on modelling its subsidiaries based on settings defined in HQ regarding hierarchy, power, and decision-making procedures. In such a case, the necessity of tight control over procedures, detailed goals, and rule-abidance is rather obvious. The Chinese company in our study fits the bill. Setting up new operations, hiring and training of new employees, and communicating with them, all follow a well-defined blueprint including a rather strict set of very detailed protocols and routines. Such preparation, nevertheless, does not eliminate the uncertainties of the pristine environment altogether. Armed with loyal and dedicated employees who are undoubtedly faithful to every value that the company holds; the international subsidiary must now face the challenges of an entirely new task environment. As the employees learn about the new task environment and its challenges, they will have to try and make decisions using the framework they were given from HQ. So, it is a process where HQ gets to learn through experiments, just not by themselves, rather by the far away arm of the subsidiary – as a sort of vicarious learning (Ingram & Baum, 1997; Miner & Haunschild, 1995).

In contrast, an outward looking company would keep an eye on what it wants from its international operations, define financial goals for subsidiary performance and demand that these are met, without bothering about the details of how things get done, and whether

everything is meticulously planned at HQ. Under such circumstances, the subsidiaries will have to learn by experimentation in their local task environment. They might have the advantage of hiring people who know the local environment, thus reducing risks of untoward events, but these local managers would still need to learn about the business and the demands of HQ. Our Japanese case provides evidence of a company that is very much managed in this way. Once the owners and top management at HQ have communicated their ultimate demand of profitability to the EMEA subsidiary, they become rather tolerant, and accepting when it comes to the means to get there. Having said that, the Japanese HQ is not that tolerant regarding failure to deliver on demand, and the subsidiary is warned of severe consequences of failure. It is noteworthy that demands imposed on A-Med's subsidiaries need not be identical. For instance, while EMEA is entirely focused on sales and profits, the Asian subsidiary is working on R&D.

The way HQ manages relations to their subsidiaries in our two cases reflect very different principles and ideas about organization design. As we have noted, the relation between the Japanese EMEA and HQ seems to mimic a market like construction with an elevated level of local autonomy that is countered by fairly high-powered incentives. In contrast, the Chinese T-Com was governed by a well-defined blueprint developed at HQ, a blueprint that included a rather strict set of very detailed protocols and routines. These observations point to well-known topics regarding differences in internalizing, or absorbing learning processes from subsidiaries to HQs, and thereby differences in the way management controls international expansion.

Control of international expansion. Our two cases have highlighted subsidiary control as one of the most salient dimensions where the Japanese and Chinese MNE differed in their approach to managing international expansion. We now wish to highlight how crucial differences in behavioural control relating to organizational routines, organizational

conflict, propensity to embrace ambiguity, and organizational identity jointly contribute to a more detailed understanding of how Asian firms manage their international subsidiaries.

Organizational routines. A central insight from behavioural theory is that individuals and routines (or rules of thumb) are learned from experience or from the experience of others (March, Schulz & Zhou, 2000). Managers do not seek to calculate the consequences of alternatives, but they rather rely on one or more routines. Understanding organizational routines is thus central to understanding how the business performs, and studies of routines in Asian organizations are central for advancing our understanding of Asian internationalization behaviour.

Some organizational routines are developed alongside the values of the organization, as in the Chinese case, where the way employees see themselves at the service of, and being loyal to, the company influences the development of routines regarding hiring, training, and performance evaluation. Yet, that is not the only source of creation and development of routines. The Japanese case is a vivid example of adoption of routines that are formed through the success of more informal and rule-breaking practices of managers when dealing with the rigid demands of the HQ. That is to say, in the Chinese case, the HQ has a more visible control on formation and adoption of organizational routines. In the Japanese company, by contrast, the EMEA subsidiary has taken initiative to showcase successful ways of achieving autonomy.

Organizational conflict. Business organizations as well as other institutions are fundamentally social in nature and embedded in the larger institutional and historical context of which they are part. Behavioural work on political organizations emphasizes the inefficiency of history, the ways in which history is path dependent, and the ways in which actions stems from social identities (March, 2006, 2010; March & Olsen, 1975).

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Rules are again central, as actions do not result from calculating consequences, but rather from matching situations to rules that may be appropriate to the situation. Thus, further studies of how identity drives behaviour of organizations in Asia would help us understand how their rules change over time, in all stages of internationalization.

In our case studies, we observed how a long-term perspective, along with the organic growth focus of the Chinese company, would more often than not translate into a lower level of organizational conflict between HQ and the subsidiaries. How various actions relating to internalization are planned and executed is highly dependent on the existing rules and regulations as given from the Chinese HQ. This leaves less room for intervention in HQ policies by subsidiaries in response to internal or external demands. However, in the Japanese case, organizational conflict has been one of the most prominent themes right from the beginning of the case study. What the EMEA managers bring from stakeholder demands is classified and rooted in their struggle to persuade their Japanese HQ to implement changes in the control structure of the organization. Although there is a Japanese way of doing things that pretty much rules everything that goes on at the HQ in Japan, EMEA's interaction with HQ does not always follow that rule.

Embracing Ambiguity. A central issue in (March's) behavioural work is the way in which decision makers and organizations deals with issues of uncertainty and ambiguity in goals, as well as in environments and in experience (March, 1978, 2010). Embracing ambiguity is difficult and conflicts with many central aspects of Western theories of rational choice and stable preferences (March, 1978). But ambiguity is a key concept when it comes to understanding much of Asian philosophy and practice (Jullien, 2011; Amber, Witzel & Xi, 2000). Studying the decision-making process in Asian business organizations, and understanding how they handle the challenges of ambiguity, may be

key, not only to understanding Asian business practices, but also for future development of behavioural theories.

Given the various levels of control that the firms in our study exert on subsidiaries, it appears that they operate with various levels of ambiguity. With tighter control over routines and procedures, the Chinese company would have fewer sources of ambiguity to deal with. They choose their environments and employees very carefully, to make sure that all endeavours are aligned with the bigger purpose of the firm. Losing control over many critical decisions made in subsidiaries would increase the level of ambiguity regarding the decisions made at HQ. That is the case of the Japanese company. Having less rigid control over knowledge flows, decisions, and operations at the EMEA subsidiary means that the HQ in Japan would have to manage a higher level of ambiguity regarding their decisions about their international operations. But, surprisingly, the way these companies embrace their inherent ambiguities is not only vastly different, but also quite unanticipated from our point of view.

The Chinese company's leadership is consistently concentrating on upholding a sense of urgency and crisis, which, in practice, leads to an elevated level of ambiguity. With unknown, unidentifiable, and rather unclear circumstances that a sense of crisis entails, it is difficult to assume knowledge about all aspects of decisions to be made. On the contrary, even though the Japanese company is in reality facing a far bigger level of ambiguity in the organization, (as described above), the firm's customary way of addressing current issues is mainly focused on achieving success in terms of meeting pre-set goals. The explanation around the goals in question and the ways to reach them constantly changed throughout the study, but the managers acted as if it was the very same goal they had started to pursue from the very beginning. In their interaction, the Japanese HQ and their EMEA subsidiary would frequently present changes in plans,

goals, and strategies as a natural and expected part of previously agreed schemas. It is usually the case that either HQ or EMEA would introduce a subtle and unacknowledged change in the plan, which previously both parties had agreed to. The new, changed plan would then be followed as if it had always been an unspecified detail, waiting for the right interpretation. In such situations, neither party admits to a deviation in agenda and forecast, instead decides to go with the current interpretation of the bigger master plan. In this way, the challenges are rather successfully masked as a small and foreseen part of a grand design for the international operations, thus inferring little ambiguity.

Organizational identification. One of the most fundamental differences in Asian firms is the centrality of the concept and practice of 'guanxi'. Literally, 'guanxi' means connections, relations or relationships (Chen, Chen & Xin, 2004). In the scholarly research of business organizations, it is often defined as the existence of direct particularistic ties between two or more individuals (Tsui & Fahj, 1997). The presence of guanxi means that decision makers embrace the premise of limited rationality, and rely on identity and networks rather than calculation, transaction cost, and opportunism when making decisions.[15] This is consistent with the behavioural ideas on group loyalty and organizational identification, and the social benefits of altruistic behaviour (Simon, 1993). Simon argued that organizational identification is a form of group loyalty and a 'powerful altruistic force' that influences both decision-makers' goals and their perception of the situations (1993, p. 160). Guanxi be a mechanism and a way of organizational identification, which helps explain the comparative advantages of many

15 An important code of conduct (and source of loyalty) is extended to a network of close relationships (guanxi) among people with common background (birthplace, lineage, surname or experience). Although essentially non-instrumentalist in nature, it is an important instrument in China in Chinese politicians building electorates; businessmen building businesses, etc. (Fahn, Tsui, Xin & Chen, 1998).

Asian firms, and in fact it may be consistent with Sun Tzu's insight that leaders (generals) cannot rely on utilitarian principles and rewards to motivate organizational members (Wee, 1994).[16]

The concept of organizational identification is another interesting area when we compare the two Asian companies in our study. The Chinese company has a strong focus on its values, mindset, identity, and ideology. Loyalty to the company, sacrifice, and being a good soldier is emphasized from the initiation phase of employment. It is obvious that having a strong ideological connection with the company's vision and mission is not only rewarded, but also demanded by the leaders. Such level of identification would result in a higher and tighter control over decisions and operations of the international firm by the Chinese HQ. In many cases, the overseas employees would most probably not even imagine ways to operate that would clash with the Chinese ideology, therefore making it easier for the HQ to assess expectations, and foresee the various actions and decisions to be made.

The case of the Japanese company is far from the world of the Chinese firm. For example, after conducting our survey on both the Japanese HQ and the EMEA subsidiary employees, the results showed that in neither location did the company have the advantage of being recognizable to its employees and other stakeholders. Not only were the strategic goals, vision, mission, and values of the company unidentified by the stakeholders, but also more simple aspects of the organizational identity, such as the colour and font of the logo, were not recognized or properly remembered by them. Such

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16 Thus, guanxi becomes a key to the 'cultural competitive advantages' of (especially) Chinese firms. Empirical studies have also shown that firms with a higher degree of gunaxi tends to have a more sustained advantage; be more efficient, and increase long term survival and growth of the firms (Lovett & Kali, 1999; Lou, 1997).

loose control over the organizational identity of the Japanese company was described as a major problem by the top management team. However, in the longer run, it might have affected the adaptability of local branches and subsidiaries in a more positive way than it was imagined. The autonomy that local managers could exert from such a loose identity meant that they were more flexible and enthusiastic, as they were looking for solutions within their specific environments rather than trying to carry out a unified strategy dictated to them from the HQ.

In summary, we can distil several elements that jointly contribute to expanding the behavioural approach to account for internationalization processes in Asian firms. Central to that approach is the question of, what are the determinants of path dependence in internationalization processes? Internationalization can be understood as an adaptive process that is characterized by major institutional and cultural challenges. We provide a new way of thinking of such processes. We view an internationalization process as a path dependent process where the actual paths that can be taken are influenced by a mixture of random events and firm policies. In the perspective, it is critical to understand the set of potential actions that are available to the firm at any point in time as well as the mechanisms that realize particular actions from this set. Our case studies have highlighted a number of such mechanisms relating to psychic distance, organizational design, and control of international expansion. However, internationalization is a long-term process where the set of potential actions itself may expand or contract. Our theory integrates prior work that views internationalization as a process of learning by doing.

4.7. Closing & Implications

Several decades with changes in the global competition and increasing influence of Asian firms have brought shifting focus on several fronts. Not only have functional areas such as marketing, strategic planning and strategy become enriched with Asian ideas and

values, but also new concepts are being applied to understanding Asian business practices.

We conclude that, based on our findings, it is problematic to consider an MNE as a unitary actor. Each manager's decision matters, and although the effects of culture on individuals is undeniable, it is far more difficult to view MNEs as representatives of a specific national culture. Furthermore, the clear effects of organizational design, information structure, and control structure on the direction that an organization takes can explain the variance in outcomes even in seemingly close and neighbouring firms. Therefore, considering that internationalization is a path dependent activity, we suggest that predictions about modes and means of international behaviour in firms strongly depends on the decisions that individual managers make in the context of the hierarchy, task structure, and external environment, thus making the consideration of these factors crucial in understanding the dynamics of MNEs.

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5

Conclusion

5.1. Theoretical Contributions

The history of management has a long tradition of exploring the many facets of using control as a means to achieve success. In contrast, our understanding of management practices that allow organizations to thrive in uncertain conditions is less complete. This gap in our knowledge highlights some limitations in the guidelines research can offer today's organizations as they are struggling to produce innovations and create value (Birkinshaw, 2008). In response to this shortcoming, a new approach to manage and foster novelty, innovation, and change is here suggested. A new managerial model is introduced (Chapter 2) which copes with innovation and its contingencies, such as uncertainty and the subjective reluctance that individual human actors commonly experience when facing the unknown.

While the management literature has traditionally emphasized the gains accruing from process control, some scholars in economics and management have made serious attempts to consider the thorny problem of novelty and the derived challenge of management under uncertainty. Joseph Schumpeter (1934) placed the entrepreneur in the centre of the economic life, as the agent who obsessively would seek innovation and thereby provoke change. Alfred Chandler's (1962) idea that "structure follows strategy"

also put the entrepreneur and his actions in the limelight, given the inherent uncertainty involved in realising a new structural form. Kenneth Andrews (1971) introduced the concept of corporate strategy and distinguished between the formulation and implementation of strategy, with the implementation stage being fraught with uncertainty. These classical attempts to introduce a wider explanation of managerial activity through strategy encourage us, management researchers, to look for the fundamental aspects of managerial activity that enable a fruitful handling of uncertainty.

Innovation activities, as well as scientific research, often involve managing very ambiguous problems which implicitly hold high levels of uncertainty. Traditional forms of management are based on strict control, concrete task breakdown, and a clear division of labour. Their application requires a prominent level of certainty, and presents many limitations in ambiguous and uncertain situations (Jensen, 2011; Nadal-Burgués & Bonet, 2012). Of course, when the desired mode of operation can be realized without uncertain change processes, control seems appropriate. In cases where novelty is promoted, uncertainty is only manageable in the absence of control.

The idea of strategic planning as a way of programming future organizational action is commonly questioned as a reasonable premise for understanding organizational change (Mintzberg, 1994). Because plans are incomplete and conditions change in unforeseen ways, the goals that are set at the beginning of a change process are rarely realized as intended (Mintzberg & Waters, 1985; Mintzberg, 1994). For this reason, unforeseen events are more likely to conspire against goals that are precise and easy to verify. A reasonable response would therefore be to formulate more vague goals, so that the vagueness in goals matches the uncertainty in outcomes.

Through the present research, specifically in the conceptual paper (Chapter 2), I suggest that one way to gradually disambiguate such situations is by means of ongoing

interpretation, generating new symbols, and engaging in persuasion. It is plausible to argue that managers' main activity is to engage into conversations that create forms and spaces for interpretation, negotiation, and persuasion (Jensen, 2011). The art of conversation, thus rhetoric, which per the Classics refers to the "art of speaking well", could be incorporated as a new managerial function. Several studies disclose the role of rhetoric in management sciences and offer a conceptual framework to understand how managers use language for achieving their aims. This approach does not only imply the logical and argumentative approach resulting in the acceptance of a theory, but also a "good understanding of feelings, motivations, purposes and values" (Bonet & Sauquet, 2010:122). A profound approach to managing through rhetoric would thereby capture the particularities of a situation, recreate them symbolically, and display them as ready to be changed through an emergent consensus.

Depending on the type of problem or goal that needs to be addressed, rhetoric could function as a means to absorbing uncertainty (Chapter 2). The use of rhetorical means brings a variety of interpretations, which in turn, generate new options. As consensus starts shaping through persuasion, the use of rhetorical means tends to narrow and eventually close the interpretive stage, and as a result, reduces the variety of options. For instance, by introducing a new metaphor – one of the most well-known rhetorical devises – there is immediately a chance to invite the generation of new and varied interpretations. In this open stage "it is impossible to say which interpretation is the right one" (Jensen, 2011: 51). The unintelligibility of such open moments puts the mechanisms of interpretation – symbolism, freedom and judgment – to work, in order to bring to the table more intelligible options. For example, since long ago humankind desired to reach the moon. Through history, this old and ambitious project has been subjected to many interpretations. At the very beginning only poets could reach the moon. Later, in the 16th

century, Galileo was the first to see it with detail, and as other numerous scientific developments were introduced, finally, in 1969 Neil Alden Armstrong made a giant leap for mankind by actually stepping on the moon. Even though small, Armstrong's steps closed the project of traveling from the earth to the moon which through centuries had attained many imaginary solutions. The moon project thus evolved per the interpretations given by the people pursuing it, and in accordance with the available resources of their time.

While open moments may facilitate change through emergent consensus, managers are often entrenched in very ambiguous situations and "much of the effort in acting in such situations depends on the ability to interpret and to act and persuade others" (Jensen, 2011:54). As elaborated in Chapter 2, the striking similarity between the stages of technical development and managing change and novelty lies in the inherent need to make decisions regarding what action to take in the face of incomplete information, ambiguity, and/or uncertainty.

In "How decisions happen in organizations", James March (1991), emphasized that there are other aspects that guide us to an alternative approach to management than that of rational-man perspective and physics. So, in addition to the role that narratives and rhetoric play in aiding the practical side of management, they would enable a suitable approach to studying organizations. For instance, Weick's (1979, 1995) contribution on sense-making refers to narratives in organizations and their importance in driving and directing change. In "Translating Organizational Change" (1996), Czarniawska and Sevón build on the importance of the narrative perspective by suggesting that narratives in organizations reveal the answers to questions about the identity and goal of individuals.

Drawing on Schutz's (1953) theory of human intentional action, this idea is pursued in the second paper (Chapter 3), by introducing the concept of a mental project – broadly

referring to the mental rehearsal of a future act – and building a conceptual framework that connects mental projects to narratives. In line with Mintzberg's (1994) claim that managers should make their contribution around the strategy making process, the idea is that mental projects ala Schutz take the form of narratives that managers can believe in. In other words, it is conceivable that mental projects can be formulated as narratives that managers view as credible promises even though the specifics remain vague. Narratives that can somehow serve as credible promises about outcomes of change processes thus connect planned actions with uncertain outcomes.

In all instances, one could safely allow for a narrative to contain three main elements: a plot, that is the sequence of events and their chronological order, a theme, that is the overarching meaning or morale of the story, and the setting, which is the context in which the events take place. The structure of intentional human action, as elaborated by Schutz (1953) is comparable to the structure of narratives in that it includes a sequence for the unfolding of events, which he calls the mental project, and an overarching meaning, which is the purpose of the action.

Giving priority to the narratives and their corresponding mental projects contributes to our understanding of MNE's and change further. The third paper in this dissertation (Chapter 4) asserts that even if the influence of culture and language on types and templates of stories is profound, theories of international business do not fully embrace the primal nature of narrative types in organizations. For instance, strong factors like language, historical heritage, geographical and climate conditions, political predispositions, education systems, religion may affect human actors in an analogous way. This would result in a degree of cultural homogeneity and predictability in the way individual human actors generate alternatives and make decisions. But when it comes to

the rhetoric of their narratives about change and other uncertain situations, the situation is more open to individual expressions.

The specific ways, be it cultural or non-cultural, in which each individual manager acts, reacts, and interacts with her task environment, with stakeholders, and with HQ, would influence the firm's development along a broad range of paths depending on personal style and talent as well as other factors that are shared within a culture. Moreover, the way organization design aggregates individual contributions – e.g. in decision making (Christensen & Knudsen, 2010) or search for innovations (Knudsen & Srikanth, 2014) – appears to have notable effect over and above personal and cultural factors. As illustrated in our cases studies, organization design had a notable effect regarding what kind of information that was aggregated, i.e. information regarding process in the Chinese MNE and regarding outcome in the Japanese MNE.

5.2. Implications

In addition to implications for research, as described in the previous section, understanding the role of narratives and rhetoric in the context of uncertainty, i.e. change, is of crucial importance to managers and instigators of change in an organization. It is important for practitioners and scholars to recognise the need for allowing enough vagueness in the change goals, or in the processes, as keeping both rigid would not be a reasonable option. The contextual demands and uncertainties of change would require the actor to make decisions, no matter how incomplete their knowledge might be. Handing down a detailed point by point plan of change where nothing is negotiable would not ease the project of change, as individuals would have to compromise either the process or the final goal, to cope with the demands of their ever-changing environment. On the other hand, keeping a considerable level of vagueness in both, process and

outcome, is only advisable in the primary stages of strategy development, since going forward with a huge level of uncertainty simultaneously in process and outcome would lead to difficulties such as coordination problems and political (ab)use of narratives, where stories are made to fit personal gains before firms' gains.

Furthermore, when studying an organization, or managing one, it is problematic to consider a firm as a unitary actor. Every narrative prioritizes a unique aspect of the organization which, in effect, has the potential to destabilize the whole ideology and operations of a firm. Each manager's decision matters, and although the effects of culture on individuals is undeniable, it is far more difficult to view any firm as a representative of a specific culture, national or otherwise, just because of its location, the national culture of its managers, or proximity to a cluster of competencies. The clear effects of organizational design, information structure, and control structure on the direction that an organization takes can explain the variance in outcomes even in seemingly close and neighbouring firms.

5.3. Limitations

So far it has been emphasised that narratives play a multitude of roles when it comes to managing uncertainty and creating meaning. They also form strategy, i.e. decisions about the future, and dictate the outcome of organizational change efforts. It is, however, not the end of the road to understand the role of narratives and the potentials they could unlock. Some limitations to the current work include lack of generalizability, and limitation in number of perspectives attained. Not every story in the organization was heard, since the interviews were confined to managerial levels. Meanwhile, there is always the possibility to dig deeper into the narratives and discover more layers of meaning.

Though this dissertation has provided examples of types and functions of narratives, still there is not a classification of the types of narratives that would correspond to each and every specific scenario of change. It is probably naïve to assume that such a clear and precise classification is possible at all, but ignoring the gap is also imprudent. Future research opportunities, then, would focus on discovering basic attributes of each problem that would best be addressed by a specific rhetoric and narrative type. For example, based on the level of flexibility, vagueness, or freedom associated with each task or project, a specific class of narrative and rhetoric type would be preferable to others. This would contribute to our understanding of the function of narratives in organizations, meanwhile, enable managers to engage in the appropriate rhetoric and enjoy the most fruitful class of narratives in order to maintain and improve their organizations.

5.4. Further Research and Closing

To continue with the theme and findings of this dissertation, further research could be conducted with two main aims. First, by studying a multitude of organizations during a change project, one could make a statement about the applicability of narrative types and rhetoric to various organizational structures. Finding failure cases, where disregarding the type of narratives, the change project is judged to be unsuccessful, would also yield a better understanding and classification of narratives and their usage.

Second, by expanding the depth of analyses of narrative types, one could possibly extract finer nuances in the relationship between intentional action and narratives, as well as the dynamics among the actors and the interpreters of the acts. The language in which a narrative is manifested is manifold and complex, as it encompasses syntax, semantics, and pragmatics. To add to the complexity, there is also the context, such as body language and tone. Studying a narrative using multiple research methods and fine-tuning the

relationship among its building blocks would pave the way to, perhaps, conducting laboratory experiments, where the results would take the discourse on narratives and rhetoric to a new level altogether.

To sum up, I would like to note that the importance of clarity, both through research and through the stories we tell, is compatible to the importance of the ambiguity and the unknown. As dealing with uncertainty is an inevitable part of our human experience, it seems plausible to value vagueness as well as the well-known.

5.5. References

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