Management Research: The Journal of the Iberoamerican Academy of Management

Induced variation in administrative systems: Experimenting with contexts for innovation

Adrian Caldart Roberto S. Vassolo Luciana Silvestri

Induced variation in administrative systems

Experimenting with contexts for innovation

Adrian Caldart
AESE – Escola de Direcção e Negócios, Lisbon, Portugal
Roberto S. Vassolo
Business Policy and Strategy, IAE – Universidad Austral, Buenos Aires, Argentina, and
Luciana Silvestri
Harvard Business School, Boston, Massachusetts, USA

Abstract

Purpose – The purpose of this paper is to revise Burgelman's idea (1991, 1994) that induced strategic processes is necessarily variation-reducing. In doing so, the authors explore whether major change in a firm's administrative system can be managed in an evolutionary fashion via induced variation-increasing mechanisms. In particular, the authors focus on a multi-business multinational firm in which different administrative systems were experimented simultaneously as a way to determine which of these systems provided the most conducive context for innovation and capability development.

Design/methodology/approach – The authors adopted an inductive perspective and developed a single case research project aimed at documenting the process of experimentation and subsequent selection and adoption of a new administrative system by a large multi-business multinational firm.

Findings – The paper's main contribution is the concept of "induced variation", understood as intra-organizational variation-increasing mechanisms deliberately created at the top level of the organization to trigger an intra-organizational evolutionary process of management innovation. This finding extends and modifies Burgelman's discussion of induced and autonomous strategic behavior by showing that induced processes need not necessarily be variation-reducing, but may actually be variation-increasing. Additionally, the authors explain how an evolutionary process aimed at learning about the relative merits of alternative administrative systems through in vivo "reflection in action" (Schön, 1983) unfolds in a complex global organization.

Research limitations/implications – While the work provides several insights on the development of an evolutionary process leading to management innovation, its inductive nature limits its external validity and requires the development of further work for such purpose.

Practical implications – The authors explore the roles of regional organizations in creating new corporate capabilities for the MNC.

Social implications – The authors show how management capabilities developed in the Latin American context were rolled out to other locations.

Originality/value – The authors' findings confirm that major drastic reorganization initiatives can actually be approached using an evolutionary approach.

Keywords Evolution, Organizational development

Paper type Research paper

Management Research: The Journal of the Iberoamerican Academy of Management
Vol. 12 No. 2, 2014
pp. 123-151

1536-5433
DOI 10.1108/MRJIAM-07-2012-0488

Resumen

El Propósito – Revisamos la idea de Burgelman (1991, 1994) que procesos estratégicos inducidos son necesariamente reductores de la variación. Al hacerlo, exploramos si el cambio importante en el sistema administrativo de una empresa puede ser dirigido en una manera evolutiva a través de mecanismos de mayor variación inducida. En particular, nos centramos en una firma multinacional en que diferentes sistemas administrativos fueron experimentados simultáneamente como una manera de determinar cuál de estos sistemas proporcionan el contexto más propicio para el desarrollo de la innovación y la capacidad.

La Metodologia – Adoptamos una perspectiva inductiva y desarrollamos un proyecto de investigación de caso único dirigido a documentar el proceso de experimentación y posterior selección y adopción de un nuevo sistema administrativo por una gran empresa multinacional multinegocio.

Los Resultados – La contribución principal de nuestro artículo es el concepto de "variación de inducido", entendida como mecanismos intraorganizacionales de variación creciente creados deliberadamente en el nivel superior de la organización con el fin de desencadenar un proceso intraorganizacional evolutivo de gestión de la innovación. Este resultado amplía y modifica la discusión de Burgelman de comportamiento estratégico inducido y autónomo demostrando que procesos inducidos no necesitan necesariamente de ser de reducción de variación pero en realidad pueden ser de mayor variación. Además, explicamos cómo un proceso evolutivo encaminado a aprender sobre los méritos relativos de sistemas administrativos alternativos a través de "reflexión en acción" in vivo (Schön, 1983) se desarrolla en una compleja organización global.

Las limitaciones de la investigación – Mientras que nuestro trabajo proporciona varias ideas sobre el desarrollo de un proceso evolutivo hacia la gestión de la innovación, su naturaleza inductiva limita su validez externa y requiere el desarrollo de trabajo adicional para tal fin.

Las implicaciones prácticas – Exploramos el papel de las organizaciones regionales en la creación de nuevas capacidades empresariales para la multinacional.

Las implicaciones sociales – Mostramos cómo las capacidades de administración desarrolladas en el contexto de América Latina fueron extendidos a otros lugares.

La originalidad/el valor – Nuestros resultados confirman que importantes iniciativas de reorganización drástica pueden ser abordadas utilizando un enfoque evolutivo.

Palabras clave Evolución organizacional, Sistemas administrativos, Experimentación

Tipo de artículo Artículo de investigación

Resumo

Propósito/Objectivo: – Revemos a ideia de Burgelman (1991, 1994) de que processos estratégicos induzidos são necessariamente redutores de variação. Ao fazê-lo, exploramos de mudanças importantes no sistema administrativo de uma empresa pode ser gerido de forma evolutiva através de mecanismos de maior variação induzida. Em particular, centramo-nos numa empresa multinacional em que diferentes sistemas administrativos foram simultaneamente experimentados de forma a determinar qual destes sistemas proporciona um contexto mais propício ao desenvolvimento de capacidades e inovação.

Metodologia – Adoptamos uma perspectiva indutiva e desenvolvemos un projecto de investigação de caso, com o objectivo de documentar o processo de experimentação e posterior selecção e adopção de um novo sistema administrativo por uma grande empresa multinacional multi-negócio.

Resultados – A contribuição principal do nosso artigo é o conceito de "variação induzida", entendida como mecanismos intra-organizacionais de variação crescente criados deliberadamente ao nível superior da empresa, com o fim de desencadear um processo intra-organizacional evolutivo de gestão da inovação. Este resultado amplia e modifica a discussão de Burgelman de comportamento estratégico induzido e autónomo, demonstrando que processos induzidos não necessitam necessariamente de ser redutores da variação mas na realidade podem ser criadores de maior variação. Além disso, explicamos como um processo evolutivo dirigido a aprender sobre os méritos relativos de sistemas administrativos alternativos, através de "reflexão em acção" ao vivo (Schön, 1983) se desenvolve numa complexa organização global.

Limitações da investigação: – Enquanto o nosso trabalho proporciona varias ideias sobre o desenvolvimento de um processo evolutivo para a gestão da inovação, a sua natureza indutiva limita a sua validade externa e requer o desenvolvimento de trabalho adicional para tal fim.

Implicações práticas: – Exploramos o papel das organizações regionais na criação de novas capacidades empresariais para a multinacional.

Implicações sociais: – Mostramos como as capacidades de administração desenvolvidas no contexto da América Latina foram alargadas a outros lugares.

Originalidade/valor – Os nossos resultados confirmam que importantes iniciativas de reorganização drástica podem ser analisadas utilizando um enfoque evolutivo.

Palavras-chave Evolução organizacional, Sistemas administrativos, Experimentação

Tipo de artigo Artigo de investigação

Introduction

A fundamental question for strategy process research is how a corporation modifies its administrative systems in response to environmental changes and through its own proactive actions (Chakravarthy and Doz, 1992). The question is particularly relevant for big firms, such as MNCs, because they run complex administrative systems and face very different competitive landscapes (Malnight, 2001). We define administrative systems as the basic way in which tasks are divided and work is organized in the firm, including configurations of structures, systems, culture and leadership practices (Chakravarthy and Doz, 1992; Lovas and Ghoshal, 2000). The goal of the administrative systems is to ensure that the variation, selection and retention of strategic initiatives and human and social capital are informed by the local knowledge of people within the firm (Lovas and Ghoshal, 2000). Therefore, understanding how complex firms modify their administrative systems is critical to understanding the evolution of such firms. In this paper, we adopt an evolutionary and ecological perspective to understand the way companies modify their administrative systems.

Previous literature based on an evolutionary perspective of organizational evolution established that internally generated variation stems only from the autonomous strategic process of the firm (Burgelman, 1991). Such a contention precludes the possibility that internally generated variation may arise in situations where the magnitude of the initiative involved transcends the ability of any autonomous group or sub-unit to undertake it. Major and drastic reorganization initiatives can therefore rarely emerge autonomously, as they involve organization-wide decisions about formal definition of reporting lines, unit groupings and location, routines, decision rights and performance metrics. Therefore, any attempt to introduce intra-organizational variation aimed at major and drastic organizational change can only be generated deliberately from decisions made by the top management of the firm, that is the result of the induced strategic process of the firm (Burgelman, 1983). While Burgelman characterized induced strategic processes as necessarily variation-reducing, in this paper, we revise this idea. In doing so, we explore whether major change in a firm's administrative system can be managed in an evolutionary fashion via induced variation-increasing mechanisms. In particular, we focus on a multi-business multinational firm in which different administrative systems were experimented simultaneously as a way to determine which of these systems provided the most conducive context for innovation and capability development.

A critical condition for the functioning of an evolutionary process is the existence of enough variance for the selective forces to operate (Campbell, 1969). This condition is particularly challenging at the time of adjusting administrative systems in firms, as it requires experimenting with different systems simultaneously within the same firm. Such experimentation is mainly possible in organizations of considerable size and complexity. Firms that frequently experiment with organizational arrangements, such as business incubators or project teams within big firms, have received attention in the literature (Galbraith, 1982; Birkinshaw, 1997; Harreld *et al.*, 2007). However, these organizational experiments are quite limited in scope and rather isolated from the mainstream administrative system of the firm. We are not aware of studies that report organizational experimentation through the simultaneous adoption of different "core" administrative systems at a large scale with the purpose of exploring the relative merits of these systems as contexts for management innovation (Hamel *et al.*, 2008). To explore such a phenomenon, we adopted an inductive perspective and developed a single-case research project aimed at documenting the process of experimentation and subsequent selection and adoption of a new administrative system by a large multi-business multinational firm. The deployment of this new system throughout the bulk of the firm's international operations was the final result of a process of intra-organizational evolution triggered within the induced strategic process of the firm.

Specifically, we report the findings of a longitudinal field research study carried out at Walt Disney International (WDI), the organization responsible of all non-USA operations of The Walt Disney Company (TWDC). We document the development and diffusion of a new administrative system within WDI as the outcome of an intra-organizational evolutionary process triggered by variation-increasing mechanisms induced by its top management. This process evolved in two main stages. First, WDI's top management deliberately generated internal variation by allowing the implementation "in vivo" of different coexistent administrative systems in its regional organizations in Asia, Europe, the Middle East and Africa (EMEA) and Latin America. Such variation enabled WDI to experience *reflection-in-action* (Schön, 1983, 1987), a practical approach to designing that enables observation and understanding of the contingencies and complexities of different design alternatives "on the terrain". Reflection-in-action contrasts with the *rational* approach to design (Simon, 1996) characterized by the "ex-ante" conceptual development of design alternatives (design "on paper") followed by the implementation of the preferred (and conceptually fully developed) design alternative. Second, WDI selected key principles embedded in the administrative system deployed at Walt Disney Latin America (WDLA) and gradually rolled them out across the bulk of its operations in the remaining regions. In other words, the selected administrative system was retained by WDI as its new "dominant logic" (Prahalad and Bettis, 1986). Selection was associated with financial performance and with the nature of the organizational capabilities emerging from that administrative system. The successful diffusion of the principles embedded in the administrative system of WDLA enabled Disney to create corporate advantage (Collis and Montgomery, 1998) through knowledge sharing of management innovations (Hamel *et al.*, 2008).

Our paper's main contribution is the concept of "induced variation", understood as intra-organizational variation-increasing mechanisms deliberately created at the top level of the organization, WDI in our case, to trigger an intra-organizational evolutionary process of management innovation. This finding extends and modifies Burgelman's discussion of induced and autonomous strategic behavior by showing that induced processes need not necessarily be variation-reducing, but may actually be variation-increasing. Additionally, we explain how an evolutionary process aimed at learning about the relative merits of alternative administrative systems through in vivo "reflection in action" (Schön, 1983) unfolds in a complex global organization. We know of no other study presenting an example of in vivo experimentation in administrative systems as contexts for innovation. Finally, we provide insights for the corporate strategy literature by explaining how a rather peripheral regional organization within a complex organization may help the corporation create new capabilities that may be diffused throughout the firm.

This paper is organized in the following way. In the next section, we review academic work on strategic change processes rooted in evolutionary theoretical perspectives and address the need to investigate the way companies modify their administrative systems. After discussing the methodology used in our study, we describe the strategic change process that took place at WDI, with special focus on the story of the strategic and organizational change carried out at WDLA, as it enabled to validate a strategic and organizational logic that would eventually be followed throughout WDI. Finally, we discuss our findings and propose a framework of how a major firm may develop organizational innovation through a deliberate process of intra-organizational evolution and discuss the implications of our findings for research and practicing managers.

Theoretical background

Evolutionary theories have been applied to the study of strategic and organizational adaptation at different levels of analysis. At a macro level, Tushman and Anderson (1986) conceptualized technological change as proceeding through cycles of (blind) variation, selection and retention. The idea of blind variation raised a debate around the issue of environmental determinism versus strategic choice. Such apparent fundamental opposition has been reconciled by evolutionary studies at the organizational level of analysis. Burgelman (1983, 1991) identified induced and autonomous strategic behavior within organizations. Induced strategic behavior is consistent with the existent categories used in the strategic planning process of the firm and permeates the bulk of the firm's strategic activity. Such existent categories were previously selected through administrative (Bower, 1970) and cultural (Ouchi, 1980) mechanisms. In this way, induced strategic behavior has a variation-reduction effect on the set of strategic initiatives available to the firm (Burgelman, 1991). Conversely, autonomous strategic behavior introduces new categories for the definition of opportunities, leading to the development of "internally generated variation" (Burgelman, 1983). Such processes are the result of the action of individuals or small groups that try to get their organization to engage in activities outside of the scope of the current strategy (Mintzberg and McHugh, 1985; Burgelman, 1994; Mintzberg, 1994). Consequently, autonomous strategic initiatives attempt to escape the selective forces of the current organizational context and thus enable the firm to renew its strategy.

The existence of autonomous strategic initiatives has been widely characterized in the strategy and the international business literature (Mintzberg, 1994; Burgelman, 1994, Birkinshaw, 1997). In the context of MNCs, autonomous initiatives have been documented in spheres, such as the introduction and development of new products (Birkinshaw, 1997), R&D activities (Lam, 2003) or human resource management practices (Edwards *et al.*, 2005). In the specific context of MNC organizational design, Malnight studied how evolutionary processes led to the transition of a part of an MNC from one organizational form to another one (Malnight, 1996) and the existence of emergent changes in the organizational structures of MNCs as a response to competitive pressures (Malnight, 2001). Malnight stated that the strategic leadership of the firm (the *induced strategic process* in Burgelman's words) selects to introduce gradual changes in the organizational form in response to exogenous environmental variation, leading eventually to a full blown change in the firm's organizational form. Lovas and Ghoshal (2000) provided a similar consideration for the top management team's strategic intent. They accepted a more active role of top management than the one implied in organizational ecology. However, the possibility of experimenting with the organizational systems appeared to be absent from their analysis. Administrative systems were viewed as given, exogenously determined elements in the organization's evolutionary path.

In sum, previous studies understand administrative systems as the context for variation, selection and retention of new initiatives (Burgelman, 1994; Lovas and Ghoshal, 2000; Malnight, 2001). In this vein, administrative systems are deemed exogenous conditions within which strategic initiatives are endogenously selected. Top management is, at most, capable of introducing gradual changes in administrative systems to guide organizational evolution. However, a critical question remains: what would happen in the event that these gradual changes in the administrative systems of the firm are not sufficient to guarantee successful adaptation to environmental changes? Such a situation would require the firm to experiment with the context in which the variation, selection and retention of strategic initiatives takes place, i.e. the administrative system itself. Is such experimentation possible and, if so, desirable? Which mechanisms do firms rely on to experiment and modify their administrative systems? More specifically, can the induced strategic process of the firm contribute to intra-organizational evolution not only through selection but also through decisions that may lead to an increase in intra-organizational variation?

Methods

This study is the result of several years of work on an ongoing research project that tracked the evolution of the strategy of WDI and focuses in particular on the development of WDLA. In 1999, WDI was reorganized with the purpose of pursuing the corporate mandate from TWDC to significantly boost the firm's market penetration in Asia, EMEA and Latin America. This reorganization led to the creation of a Presidency of International Businesses that would coordinate the international activities of all business units (at the time: studio entertainment, home entertainment, consumer products, parks and resorts and media networks) and the appointment of Regional Presidents who would pursue the same function in each geographic region.

Research design was based on a longitudinal, two-stage single case study (Yin, 2002). The case was selected for theoretical reasons as an intentional sample (Glaser and

Strauss, 1967). The criterion for selection was the uniqueness and originality of both WDI's decision to let its recently created regional organizations choose freely their administrative systems and WDLA's specific choice of strategy and organizational form. In the absence of work on MNCs where an intra-organizational evolutionary approach was followed to develop innovation in administrative systems, we "let the case speak", albeit through the lens provided by the intra-organizational evolutionary theory (Weick, 1979; Burgelman, 1983, 1991).

Data collection was carried out in two stages. During the first stage, dating from November 2005 until October 2006, we focused on two main phenomena: first, understanding the antecedents leading to the creation of WDI, its strategic objectives and the rationale for its approach to how to organize its regional operations, second, we looked at the particulars of the administrative system deployed at WDLA. During the second stage, dating from September 2008 until October 2009, we followed the consolidation of the Latin American system, as WDI decided to diffuse its principles across Asia and EMEA. Both archival and interview data were collected. Key themes guiding data collection included the macro and micro environments faced by WDLA, the regional organization's strategic vision, strategic initiatives, organizational functioning, coordination with WDI and global business lines (i.e. product divisions) and the rationale followed by WDI for spreading the principles of the Latin American organization across other regions, along with the challenges associated with this process. Twenty senior managers from WDLA and WDI were interviewed. A total of 36 semi-structured interviews were carried out. The duration of the interviews ranged between 90 and 120 minutes. The criterion of theoretical saturation (Glaser and Strauss, 1967) was used for determining the number and variety of interviews carried out. Interviews were taped, and transcripts were prepared totaling 131 pages of interview transcripts. In addition, permanent contact was maintained between the research team and executives of WDLA in the form of informal interviews and conversations. Such interaction enabled a fruitful iteration between theory and data and proved to be extremely helpful at the time of clarifying concepts and updating information. Extensive archival data nurtured our research, including The Walt Disney Company's annual reports, presentations to investors, promotional materials and video recordings from WDLA and presentations from WDLA's top managers to business school students and to a roundtable of Regional Latin American CEOs.

The main elements in the process of experimentation with the administrative systems

The creation of WDI

Background. In 1999, TWDC was rounding up one of the most remarkable decades in the firm's history in terms of business growth. However, fast growth took its toll in the form of a relative lack of focus on operational efficiency that damaged the firm's profitability. CEO Michael Eisner decided that TWDC's strategy at the beginning of the new millennium should put profitability back at the forefront. In particular, Eisner emphasized the urgent need to boost the firm's relatively underdeveloped international operations. While the Disney brand was well known around the world, only 20 per cent of the firm's revenues came from outside the USA. In addition, per capita consumption of Disney products in developed markets, such as France, Germany, the UK and Italy, amounted to only 40 per cent of that in the USA.

In 1999, Eisner appointed Robert Iger to the newly created position of the President of WDI with the purpose of having a single executive supervise and lead the firm's international operations. Iger's position would coexist with those of five Business Unit Presidents, who were in charge of growing businesses around specific products and services:

(1) Studio entertainment.
(2) Home entertainment.
(3) Consumer products.
(4) Parks and resorts.
(5) Media networks.

Each unit was strategically autonomous from the rest and maintained its own functional areas. While all business units shared the same "core content" in the form of Disney's characters and intellectual property, no efforts were made to coordinate their strategies in the marketplace. International businesses were organized in three regions: EMEA, Asia and Latin America. Within each of these regions, business units operated autonomously as well. Regional heads for each unit reported to their corresponding global Business Unit President.

The appointment of Iger represented a major departure from the status quo at TWDC. Yet, guidelines for the geographic organization had yet to be crafted. The new geographic organization created significant suspicion among Global Business Unit Heads. The VP Strategy and Business Development for Latin America recalled: "global Business Unit Presidents wondered which would be Iger's functions and how they would relate to him, especially concerning ownership of the businesses' P&Ls". Figure 1 presents a simplified organizational chart of TWDC in 1999, after Iger's appointment.

The political shakeup generated by the arrival of Iger resounded in the individual regions as Regional Presidents were appointed. In the specific case of WDLA, a senior manager of WDLA recalled that:

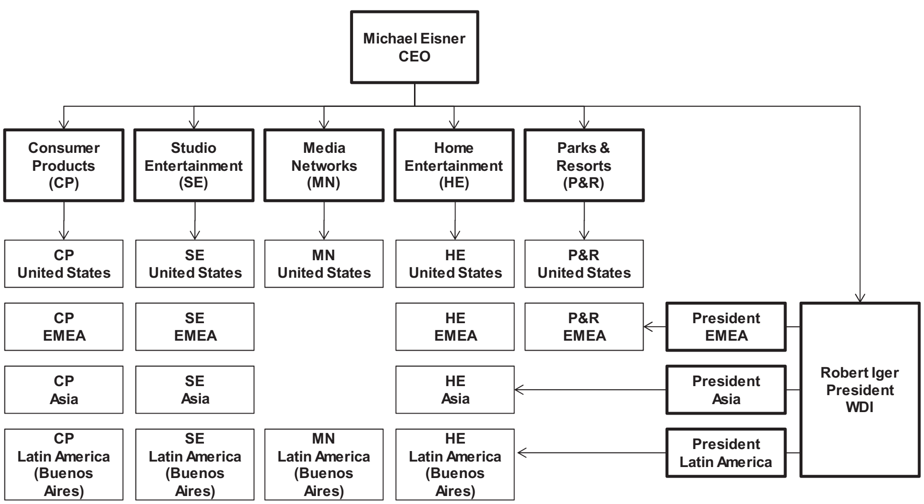

Figure 1.
Simplified organizational chart of TWDC in 1999 after WDI

> The appointment of a President for Latin America generated tremendous commotion. Regional business unit presidents had traditionally seen themselves as equals. Imagine the tension and uncertainty generated among them by the fact that, from that moment on, only one of them would report directly to Iger and supervise his former peers.

Induced variation at WDI. Soon after appointing the three Regional Presidents to Asia, EMEA and Latin America, Iger summoned them and asked them for input on the way the different regions within WDI should be organized. The President of WDLA proposed the replacement of the current administrative system, which relied on reproducing the M-form organization of Disney USA across its international markets by an organization that would reach the customer with an integrated value proposition (Treacy and Wieserma, 1995) characterized as "a single Disney voice, vision and front concept". In addition, the new organization would integrate several activities of the value chain along both geographic and business dimensions. Arguments supporting his proposal were based on the reality experienced by WDLA. Yet, some of the issues were inherent to the current administrative system, therefore affecting generically all of the operations of WDI.

Three were the generic difficulties of the current organization that the President of WDLA expected to tackle through the new administrative system.

Lack of unique, distinct "Disney value proposition". WDI's operations through autonomous business units created confusion among partners and clients and were keeping the company from capitalizing on straightforward cross-selling opportunities. The President of WDLA pointed out:

> If I sit down with a telecommunications company that also has a cable TV business, it is likely that they will propose a strategic agreement for transmitting our content through both those outlets. It would be unacceptable for me to respond: "Oh, no, you need to discuss the TV deal with my colleague from the other business unit".

The current M-form organization conspired against the development of a coherent and integrated vision, a potentially serious limitation for companies that strategize around strong shared core competences, such as Disney's unique portfolio of characters (Prahalad and Hamel, 1990; Markides and Williamson, 1994, 1996).

Shrinking bargaining power with business clients. The centralization of negotiations in multibusiness firms leads to stronger market power vis-à-vis suppliers and customers (Hughes and Oughton, 1993). On the brink of the new millennium, WDLA was experiencing difficulties in its negotiations with large Latin American multimedia groups that acted as distribution channels for its products, such as Televisa (Mexico), Globo (Brazil), Cisneros (Venezuela) and GrupoClarin (Argentina). Their domains spanned media, telecommunications, IT and graphic industries. The President of WDLA pointed out:

> With our customers increasingly developing monopoly power in their respective markets, it was impossible for us to negotiate successfully sitting down with them one business unit at a time. We need to deal with them in an integrated fashion, on equal conditions.

Duplication of business processes and high overhead. As each business unit within WDLA maintained its own sales, marketing, HR, finance and operations departments, the company sustained duplicated costs and functions, losing opportunities to create economies of scope derived from activity sharing (Porter, 1987). In the absence of effective coordination mechanisms conducive to the creation of cross-business activity sharing, there was hardly any collaboration among the different units. The VP Operations of WDLA provided an example of this situation:

> We had a marketing person from Consumer Products going to [a major soft drinks or breakfast cereal manufacturer] to present a promotions plan. A week later a marketing person from Studio Entertainment would go to the same firms to present another promotions plan. And the person seeing them at these companies was usually the same one.

Regional overhead costs were another source of concern. Two business units (consumer products and television distribution) were supervised by a regional structure of 120 people located in Miami, who did not have line responsibility nor generated business for the region.

The President of WDLA also found justification for his proposal on three singular characteristics of the Latin American environment. First, abrupt changes in some countries' economic and political situations precluded WDLA from planning ahead under reasonably stable expectations. WDLA's top management felt that such difficulties would be addressed more effectively by the proposed smaller, more organic and integrated administrative system proposed. Second, the region was characterized by a social structure quite different from the American and European ones that contributed to shape TWDC's dominant logic (Prahalad and Bettis, 1986) in terms of product portfolio and marketing strategy. Only around 8 per cent of the Latin American population responded to the archetype of TWDC's customer. The Regional President reflected:

> It was necessary for us to take action to tap the bottom of the socioeconomic pyramid. We had to be able to detect and seize opportunities there as fast as possible, paying close attention to local reality. This situation was foreign to a firm like Disney, and it was difficult to find the freedom we required to implement our ideas.

Third, while Latin America was quite a fragmented region, countries shared a Western culture and common linguistic roots. Following Ghemawat (2006), it could be argued that Latin American countries were broadly characterized by a low economic, geographic, cultural and administrative distance among each other. Such similarities increase the likelihood that cross-country business initiatives arise among them. WDLA saw such reality as an opportunity to capitalize on economies of scale by integrating at a regional level business processes currently performed on a country-by-country basis.

In sum, the administrative system favored by the President of WDLA implied the existence of two overlapping strategic and administrative logics within the same firm. Global business units would favor their autonomous initiatives, while the regional organizations would intend to cluster the different businesses under a single Disney strategic and organizational rationale. This idea was deemed as impractical by the President, EMEA. He favored the traditional Disney approach, as business units' strategic and operational autonomy was deemed as essential to ensuring focus, responsiveness and clear accountability for results. In his view, the regional organizations should not have P&L responsibility and limit themselves to act as an arbitration forum in the event of conflict among the business units and as an advisor on potential collaboration initiatives. As disagreement around the matter persisted, the President, Asia, suggested that WDI might allow each region to organize its operations the way they considered more adequate to their particular context. The acceptance of this idea by Iger implied that WDI effectively induced the creation of variation at the level of its regional administrative systems. In this way, WDLA was allowed to implement its integrated model, which marked a radical departure from TWDC's long-term commitment to business unit autonomy. In return, the administrative systems adopted by EMEA and Asia were rather consistent within the dominant logic of the current administrative systems of TWDC. The integrated Latin American organization was deemed a *corporate experiment*, characterized essentially by the creation of a different administrative system that provided a different context in which strategic initiatives developed within the region could evolve. Given that the strategic context determines which new or existing strategic variations are eventually selected and retained, the decision of implementing different contexts in the same organization anticipated that very different process of evolution would flourish in WDLA in opposition to its rather "mainstream" EMEA and Asia peer organizations.

Experimenting a new administrative system. WDLA's integrated organization

The strategy literature has provided abundant accounts of how strategic initiatives may be the outcome of autonomous behavior at the middle or low echelons of the firm (Mintzberg and McHugh, 1985; Birkinshaw, 1997). Quite often, individuals or groups of individuals try to engage their organization in activities that are outside the scope of its current strategy. Moreover, they often drive from new combinations of organizational skills and capabilities that the formal strategy does not explicitly recognize as core competence (Burgelman, 1991, 1994). These activities are an important source of variation and are characterized in the literature as autonomous initiatives (Birkinshaw, 1997). The case of WDLA is partially fit into this categorization because it is driven by managers close to changes in market conditions. However, these initiatives do not refer to new technologies or products (Burgelman, 1991), but to the way of doing corporate business. The President of WDLA introduced significant changes to the region's administrative system. Figure 2 provides a simplified organizational chart of the new organization. He unified all business units under a single regional entity: TWDC Latin America would act as a reference point to align people's behavior. He did not want

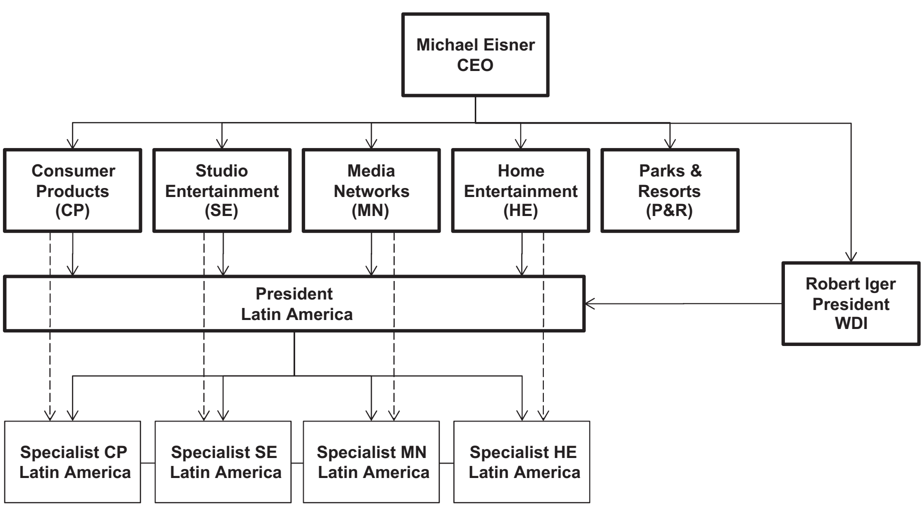

Figure 2.
Reporting lines of WDLA after 1999

people to identify with particular business units anymore. This philosophy translated into the way work was organized for local teams, both in terms of business development and the pursuit of operational efficiency.

Business development. The company would work horizontally across businesses to drive Disney's characters and intellectual property to the market. Each country had teams of specialists in products that had formerly been at the core of the company's business lines. These individuals brought their product expertise forward to create the best plan to exploit that intellectual property. Additionally, the position of VP Strategy and Business Development was created with the mandate to explore growth opportunities that could be tackled through WDLA's integrated model. This executive recalled:

> I believe I would not be wrong in assuming that we, in Latin America, were the first to operate with absolute commitment according to an integrated, horizontal vision across all business lines. There was no precedent in the world, not even in the USA, where the company had given power to a single executive to make decisions about certain content throughout all business lines. [Everywhere but in Latin America] you had a different boss for each business line, responsible for that business line's P&L. A horizontal decision would always collide with the interests of these executives [...]. Latin America was the only place where the company had an individual who could say: "From now on, everyone will work with [Disney character X], I don't care about your division, I do not care about your department, I do not care about your priorities." We started operating like that and we started communicating it heavily. [...] This phraseology did not exist before.

The existence of different administrative system generated a strategic context that allowed for new ideas to flourish (variation) and new strategic approaches to be selected and retained out of them in ways that otherwise would hardly have happened in Latin America. We offer three examples of strategic innovations that sprang out of this process:

(1) The launching of the Disney Channel.
(2) The marketing of High School Music as an integrated property.
(3) The launching of Radio Disney, an initiative targeted to the bottom of the pyramid in Latin America.

Disney Channel was conceived in Latin America as the most strategic communication vehicle of the new "one voice, one vision, one front concept" approach to doing business in the region. The President of WDLA justified this decision by pointing out:

> We defined that the first business we needed to succeed in was the Disney Channel, because this product was exactly targeted to the consumers who could afford [any Disney product or service]. We were present right there in the homes of those 60 million people. The Disney Channel was the best brand message for the entire company's content, regardless of the business line. Every other business would therefore be concerned with making sure that the Disney Channel was a success. Once we succeed with the Disney Channel, then the Disney Channel would help sell our movies, our videos, our consumer products, our trips to Disneyworld. In a non-integrated model that definition would have never taken place.

Another example of horizontal management was the treatment WDLA gave to *High School Musical*, initially a TV movie that later grew into a multi-business phenomenon. Disney Latin America managed this content as a company "property" and communicated it to the consumer using a "property-centric" view in opposition to the division-centric approach followed in other regions. This approach led to significant tension with the heads of Global Business Units as the WDLA approach demanded them to give up the strategic sovereignty of their divisions. The VP Strategy and Business Development of WDLA stated:

> The way we managed to overcome the obstacles vis-à-vis the global business units was very simple and at the same time very risky on our part. You could either qualify it as risky or as enormously committed to our vision. We were extremely confident that the vision was going to work. We simply promised better results than operating in the traditional way. We made this promise to each and every business line. We said: "Ladies and gentlemen in Television, Consumer Products, Digital Media, Studios, Home Entertainment: we will manage the High School Musical property in a different way than you will manage it worldwide, with your teams operating as independent companies passing the content around among each other. We will manage one integrated project. We will have only one team behind this project and this team will make decisions for all business lines in our regional company. The results this team obtains will be company-wide results. This result we promise is going to be larger than the sum of the individual results we would obtain by managing the property the way you do".

This was a risky and a very committed argument in terms of our vision. It was also a very aggressive move on our part. Our logic was practically impossible to refute. We committed ourselves to that and said "This thing is going to yield 200. The sum of [what we would obtain managing the property as] individual businesses would only yield 150". We then gave them 250.

Still, the potential of Disney's traditional offerings in terms of television, theatrical releases, consumer products and the like was rather limited in Latin America. These offerings reached only 8 per cent of the Latin American population – those who could afford cable TV, a night at the movies or frequent trips to the toy store. WDLA decided to develop additional communication channels to reach potential customers of mid and low income. The margins of the products targeted at these customers would be certainly low, but volume and brand loyalty offered great potential. Market research revealed that Disney was an aspirational brand in Latin America: people wanted Disney even if they could not afford it.

Among the initiatives launched to target the bottom of the pyramid was Radio Disney. This venture sought to create a widely accessible communication channel that could reach a vast number of potential customers at home, on the road and at their place of employment. WDLA recruited a person with decades of expertise in the radio business to lead the venture and gave him carte blanche for its development. The only condition was that the station should focus on disseminating Disney values and on creating a bond between the company and its potential mid- and low-income consumers. Radio Disney soon grew to be among audiences' favorites. The station's profile was familiar, emotional and also sensitive to the aspirations of its audience. Besides music, it offered free tickets to Disney's live shows, meet-and-greet opportunities with artists and the chance to win memorabilia connected with recently launched Disney movies.

In a non-integrated administrative system, it is doubtful that Radio Disney would have blossomed the way it has in Latin America. Not being a financially attractive business, such an initiative would have had a hard time gaining support vis-à-vis other businesses. The President of WDLA stated:

> Radio Disney is not a brilliant business, financially speaking. For us, it is a *strategic* business. It helps us reach vast sectors of the middle class. The radio is a source of solid connection between broadcaster and listener, and can be accessed free of charge.

Operational efficiency. Among the operational changes made to WDLA's administrative system, the President closed the regional office the company held in Miami and reopened it in Buenos Aires with fewer employees. His premise was that nobody in WDLA would hold supervision-only positions. Executives with regional functions would also hold line responsibilities in their respective countries, managing the day-to-day operations of a specific business, according to their expertise. The President of WDLA referred to this approach as a "double-appointment" model. He stated:

> Coordination is important, but I didn't want anybody to be a full-time coordinator. Everybody here, whether they are coordinators or not, will be busy [with line responsibilities] and they will have their own performance objectives to make sure that they deliver beyond coordination and coaching. I am in charge of the day-to-day Television business, for which I have a P&L, and I am the strategic leader for the rest of the company. Other employees report to me but I am busy, I have no time for micromanagement. [If managers only take coordination roles] then [the organization has to deal with] the insecurity of individuals who [need to] feel they are still needed. At this point you start de-motivating people, showing insecurity, generating barriers that are nonexistent, just because of individual agendas that legitimately exist but are negative for the [company] as a whole.

The elimination of staff-only positions contributed to WDLA's horizontal management approach, but it fundamentally guaranteed that the region would be managed with a cost-effective structure. Additionally, supporting business processes, such as finance, operations and HR, which under the original administrative system had been duplicated within each country and business unit, were merged into a single Shared Services Center based in the regional office.

Selection: gaining legitimacy for WDLA's integrated administrative system

Top management is expected to establish the structural context for selecting initiatives. The particularity of TWDC is the coexistence of different structural contexts pursuing the same strategic impulse of fostering growth in the international markets. WDLA's context was nested within the global context, but operated in a very different way. However, in the US context, with few exceptions, Disney operated with the same technology and the same product and customers as in the rest of the world. This duality explains that WDLA's integrated administrative system was initially resisted by the heads of the US divisions with which WDLA had frequent interaction. Initiatives developed by WDLA during its first years of operating as an integrated firm were received with indifference by the global business units. The President of WDLA remembers: "Many global business unit presidents just shrugged off our organizational model. They did not even acknowledge our existence [as an integrated organization]".

Global Business Unit heads feared a loss of control over the management of their businesses in the region and over the financial results associated with them. Fundamentally, an integrated organization meant that Global Business Unit Heads had no clear counterpart in Latin America who would be accountable to them for the performance of their specific unit. The VP Strategy and Business Development, WDLA, explained:

> The head of Consumer Products on a global basis is only concerned with the results of Consumer Products. When that man calls [another region], he speaks with his peer in Consumer Products for that region. These men share the same concerns. The second one wants to maximize the results of Consumer Products in [that region]. In Latin America this did not happen. First of all, there is no peer in Consumer Products in Latin America. When the global head for Consumer Products calls Latin America, he speaks with [the Regional President] or with a country manager. These people in executive positions across Latin America wear different hats. We actually did this. We made a hat with four brims. You would rotate that hat and you would have different names of businesses written in the front. The executives that occupied high exposure positions vis-à-vis headquarters needed to be capable to present a side of the business in Latin America to their corporate peers and give them a sense of the benefits they would obtain in terms of that business. […] All of us participated in all meetings with all the [global] divisions, we drew the 5 year plans for all the divisions, went to the annual conferences of all the divisions. We had to speak the particular language of every business line and sit in front of the representatives of those business lines as if we *were* that business line in Latin America, when in reality we represented all business lines.

Table I summarizes some of the specific challenges faced by the top management team at WDLA in association with working with a logic of integration when it came to regional operations and with a logic of business-unit centricity, as it came to reporting results to each of the Global Business Units.

A senior manager at WDLA recalled how the top management team at WDLA responded to the Global Business Unit Heads' skepticism vis-à-vis their integrated administrative system:

> [The Global Business Unit heads] thought: "Now my business will be run by people who will dedicate themselves to running other businesses as well. I will lose their attention. There will not be enough focus." […] The discussion did not resolve itself until we started showing results.

As the Latin American organization gained momentum and visibility, conflicts with the Global Business Units multiplied and political friction escalated. The President of WDLA suspected that their reluctance to embrace an integrated administrative system in Latin America was rooted in a suspicion that such a system, if successful, would eventually be deployed elsewhere, affecting these executives' sense of clout. He remembered:

> Over the first two years the survival of our organizational model was hanging by a thread. Many times, I woke up in the morning thinking that that would be my last day at Disney […] Many people at TWDC started to realize that if the new model worked [in our region], it could become a threat for many structures operating outside Latin America, which is exactly what eventually happened.

In terms of diffusing tension, the same executive acknowledged: "Iger's support was crucial. Most of the time he would not give us explicit approval, but neither discredited us by rejecting what we had done".

The situation was exacerbated by the fact that the top management team at WDLA did not feel they "had all the answers". WDLA's executives had no experience operating an integrated firm. The President of WDLA explained:

> Telling you, to be perfectly honest, that we have been planning in advance what we would be doing today would be totally untrue and incorrect. Every day [we would strive for] survival.

Table I.
Challenges faced by the top management team of WDLA in 2000

Organizational element	Old Latam administrative system	New Latam administrative system	Challenge
Regional business unit	Similar political status	Political status of business units contingent to "one vision, one voice, one front concept" strategy	Manage motivation of business unit managers
Manager position	Report to global business unit leader	television defined as priority over other businesses	Achieve alignment from regional business unit managers, while the global business unit structure remains unchanged
Incentive structure	Aligned with business unit performance	Incentive structure remains unchanged, but regional managers expected to align to integrated vision	Obtain support for new and "embryonic" vision under incentives of the old organization
Marketing and sales	Approached individually by business unit	Approached under "one voice" by one single representative of Disney as a strategic partner	Coordinate business units around a single voice Choose versatile managers who can sell products related to Disney's properties across a range of industries
Relationships between region and WDC	Regional business units execute strategic directives from global ones. (unity of command)	Regional integrated vision may diverge from global business unit strategies (matrix organization dismantles unity of command)	Reconcile political disagreement within matrix organization

> We had enormous amounts of issues that we had no idea how to tackle. […] And then [we gathered] conclusions and tried to plan a little bit ahead. But meters, inches, not kilometers.

Eventually, certain events taking place at the corporate level helped ease the pressure on the Latin American administrative system. A senior manager at WDLA detailed:

> In late 2003, TWDC hired Andy Bird [to lead WDI in Iger's place]. This was a politically relevant event. The company hired a high-profile executive, who came from outside the company and who had had a prominent career in the Media & Entertainment industry. This sent out the message that the company was not hesitating when it came to WDI. This structure and this position and this organization would carry their own weight. They hired this high-profile senior-executive, they gave him an office directly next to Iger's. These details may appear trivial, but they are not. In 2005, Iger was named CEO of TWDC, replacing Eisner. Iger was committed to this philosophy of international growth. When he took over as CEO, he established 3 broad principles for his administration, and he communicated them all over. He said we would focus on the quality of our content, products, and services, on the technological revolution, and on international growth. This statement pushed this agenda in a political sense and loosened the pressure on the Latin American model which, luckily, was starting to respond with results.

Retention: consolidation and diffusion of the integrated administrative system beyond Latin America

By 2005, the performance of the integrated administrative system in Latin America was highly impressive. Revenues had increased by 400 per cent, and net income doubled since 1999. WDLA's share in the company's revenues went from <2 per cent in 1999 to approximately 5 per cent in 2005. In the meantime, the Presidents of EMEA and Asia who had been appointed in 1999 left the company.

The appointment of Iger as TWDC's new CEO boosted the corporate-wide impact of the integrated model. In turn, Bird, now leading WDI, decided that the recently re-launched operations of Disney in Russia, China and India would be organized under the Latin American logic of strategic coherence and organizational integration. He stated:

> Having seen the success of what happened in Latin America, we took those three markets, […] we replicated the Latin American structure, and we appointed a managing director. [This person would have] the authority and the autonomy to basically build the local WDC [in that location] and structure an organization that suited the particular landscape and infrastructure of that market.

By 2006, the integrated organization was consolidated in Latin America and enjoyed full political support at headquarters. WDLA's top management team assumed a consulting role for other regions as they adopted the principles of the integrated model. The strategy and organizational design developed by Disney in Latin America was also diffused to other markets, such as Japan and South Korea. The President, WDI continued:

> So we have pretty much all the Asian markets with… if you want to call it the Latin American model […] I would call the integrated model. Each [market is] very different in its own way, [and we need] to deal with the individual characteristics of each of those markets, but now each of them is being managed by one person who has got a much broader perspective. Just like we had in Latin America.

In 2009, the final stage of the diffusion process began: the President of WDLA was appointed President, EMEA. TWDC did not ask the executive to surrender his position in Latin America; he would be at the helm of both regions and help lead the transition toward an integrated administrative system in the region where there had traditionally been most resistance toward this approach. Moreover, he took his appointment in EMEA as an opportunity to bring the Latin American administrative system to the next level, as expressed by the VP Strategy and Business Development of WDLA:

> Today, a new and quite interesting chapter is opening up, looking at what is happening in EMEA. The fact that [the President, WDLA] is currently leading that region and at the same time retains the presidency of Latin America in a company such as Disney opens the door to an interesting analysis and makes you think that it is not altogether crazy to consider what is happening in EMEA as part of the evolution of this same [Latin American] organization. [He] is implementing initiatives in EMEA that are more complex and sophisticated than what we have in Latin America. This is an interesting process because EMEA began at a much more primitive stage than Latin America but, instead of undergoing the same stages as Latin America, has leapfrogged and is now at an evolutionary stage organizationally speaking that is more sophisticated than Latin America's.

In short, within 10 years of the creation of WDI and the experimentation process set forth by Iger, the integrated administrative system first attempted in Latin America was adopted almost comprehensively throughout all the regional operations under WDI. Only TWDC USA maintained the "classic" administrative system organized around strategically autonomous business units.

An evolutionary approach to administrative system renewal

We built on in-depth case study to develop a model that characterizes the process of renewal of an administrative system in an evolutionary fashion. This process sets the stage for the firm's subsequent development of novel corporate capabilities. We first discuss the process leading to the successful administrative system renewal within WDI, and next we elaborate on how this process resulted in the development of new corporate capabilities. Our criteria for considering that the process of experimentation of a novel administrative system within WDLA was successful were the following: first, the strong economic performance, both in terms of sales and profits growth experienced by WDLA, as referred above, second, the decision of WDI to roll out the strategic and organizational innovations experimented within WDLA to most of the rest of WDI's operations.

Intra-organizational processes for administrative systems innovation

The process of organizational innovation that took place within WDI combined elements from both autonomous and induced strategic changes. In Figure 3, we describe the main stages of how organizational innovation was developed in an evolutionary fashion at WDI, and in Figure 4, we synthesize the findings in a proposed model for induced variation of administrative systems. The model is theoretically grounded on the variation-selection-retention framework (Campbell, 1969; Weick, 1979) and on Burgelman's notions of induced and autonomous strategic behavior (Burgelman, 1983, 1991). Two tables complement the analysis. Table II lists the main ecological elements acting in the evolutionary process of

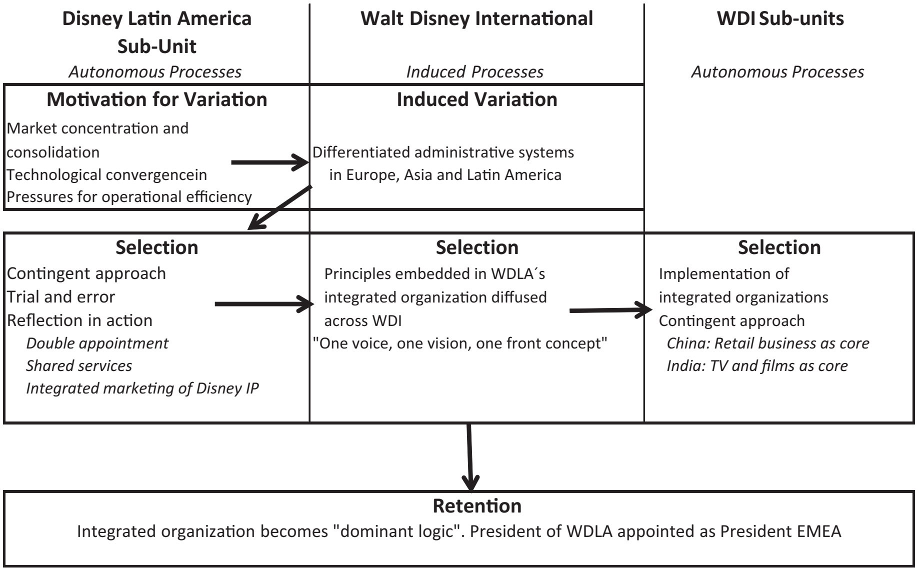

Figure 3. Evolutionary processes for organizational innovation at WDI

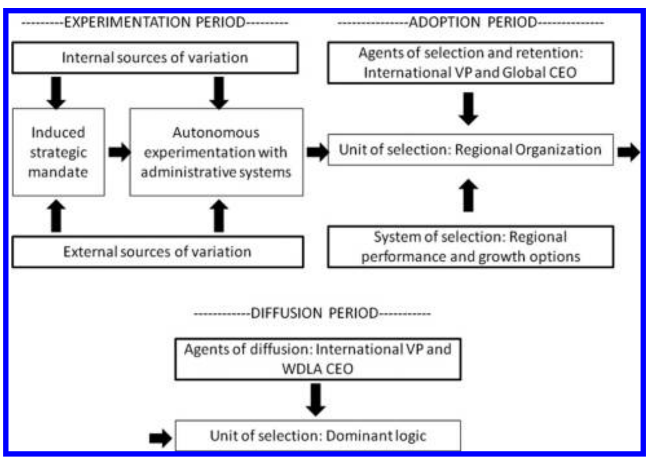

Figure 4. Model of induced variation

induced variation, describing the sources of variation, the units of selection and the agents of selection and retention (Lovas and Ghoshal, 2000). Table III highlights the critical organizational devices, process and agents in each stage of the ecological process. In the following paragraphs, we discuss the salient aspects of induced variation and elaborate on different propositions.

Experimentation period. Successful reorientations are likely to be preceded by internal experimentation and selection processes affected through the autonomous strategic process (Tushman and Romanelli, 1985; Burgelman, 1991). In the case of updating the administrative systems, the process followed a similar pattern, mutatis

Table II.
Main ecological elements

Sources of variation	Units of selection	Agents of selection and retention
Endogenous induced Strategic intent of TWDC Global international strategic initiative *Endogenous autonomous* Regional managers *Exogenous* Changes in the competitive landscape: consolidation Technological changes: Convergence Differences in macro environment of the different regions (PEST)	Regional administrative systems and business configuration	International CEO–based on performance

Table III.
Critical ecological forces and drivers of evolution at WDI

Experimentation period Variation	Adoption period Selection	Diffusion period Retention
Critical organizational devices Creation of WDI Interface Global Business Unit-Regional Office Interface WDI -Regional CEO Loose coupling of Regional organizations within WDI	Interface global business unit regional office	Tight coupling Ad hoc advisory roles from Latam executives
Critical processes Experimentation with organizational design Political support at WDI	Reflection in action Performance assessment Capability development assessment	Active diffusion of the new design Adaptation of administrative system regional competitive landscapes
Key agents Regional CEOs Focal regional CEO: administrative systems entrepreneur (WDLA) International CEO Business unit global CEOs	Focal regional CEO (WDLA) International CEO	Other regional CEOs International CEO TWDC CEO

mutandi (i.e. taking into consideration that we are not referring to autonomous strategic process, but to major changes in the administrative systems determined both through induced and autonomous processes). The impetus to change the administrative system at WDLA was the result of an autonomous vision developed by the region's newly appointed President. His drive was rooted in his view regarding environmental trends affecting the activities of WDLA and to company-specific problems, notably what he deemed a dysfunctional organizational form.

However, the initiative gathered momentum as the President of WDI explicitly asked for input on how Disney's international businesses should be organized. Iger's decision to delegate in his Regional Presidents the decision of how to craft the administrative systems of the respective regional organizations had two important implications. First, it created the conditions for the development of variation in the administrative systems of the three regions comprised within WDI, providing certain political support to handle future coordination tensions that would emerge with the global administrative system. Second, it enabled WDLA to implement a radically new administrative system following autonomous strategic behavior (Burgelman, 1983). Organizational changes resulting from experimentation with administrative systems at the regional level have such a depth and breadth that important coordination problems between coexisting administrative systems are likely to emerge, requiring high-level political support for the region within the MNC. Simultaneously, experimentation benefits from organizational practices granting important degrees of freedom to the organization that provides the context for such experimentation (in our case, the regional organization). Then, experimentation is difficult to carry out without the simultaneous confluence of induced and autonomous impulses for administrative systems variation. That is:

P1. Successful experimentation of the administrative systems should be simultaneously preceded by autonomous and induced impetus.

The experimentation period has a moment of autonomous experimentation in which WDLA launched and implemented the new administrative system. WDLA's initiatives had the characteristics of autonomous strategic behavior as defined by Burgelman (1983), such as the introduction of new categories for the definition of opportunities (e.g. WDLA's integrated approach to marketing High School Musical) or the conception of new business opportunities (e.g. the launch of Radio Disney to reach mid- and low-income consumers). In so doing, WDLA developed two primary approaches associated to the implementation *in vivo* of new management practices (Birkinshaw *et al.*, 2008). The first approach was trial and error, as reflected by the President of WDLA's comments on the early days of the new administrative system (see p. 19). Later, WDLA engaged in *reflection in action* (Schön, 1983, 1987) as the integrated administrative system started gaining ground and was gradually refined. The VP Strategy and Business Development, WDLA, referred to this process as containing three phases: "market entry, consolidation, and sophistication" of the model.

P2. Successful experimentation of the administrative systems follows sequentially two approaches for the implementation *in vivo* of management practices: trial and error and reflection in action.

An important factor to be emphasized is the complexity of Latin America as a unit of experimentation. The multitude of countries in which TWDC operated in a wide range of different industries made regional experiments quite rich both from the point of views of geographic reach and industry range. All of the business units from TWDC were well represented in WDLA's operations. In addition, the multiplicity of countries across which WDLA operated posed unique organizational opportunities and challenges that resembled to a great extent those that WDI could find also in Europe or Asia. These factors provided enough credibility to the experimentation process and allowed for basic learning to emerge. Therefore:

P3. Successful experimentation with administrative systems requires the existence of a unit of selection with business challenges that constitute a close representation of those from the whole organization.

While, as just referred, the unit of selection needs to reproduce to a great extent the level of complexity of the whole organization, experimenting with administrative systems follows the same rules of experimenting with new products or business: before a large-scale implementation, it is advisable to experiment in the lowest possible scale to control downside losses. Latin America presented a good combination, as, on the one hand, it provided a complex environment characterized by multiple countries in which WDLA managed businesses across many industries, and on the other, represented a minor portion of TWDC, measured by the weight of its revenues with regard to those of the whole firm. In addition, smaller sizes, provided the existence of enough complexity, dramatically diminish the political tensions associated to coordinating two different administrative systems. Therefore:

P4. Provided a minimum threshold of complexity, the lower the economic weight of the unit of selection within the MNC, the higher the probability of successful experimentation with administrative systems.

Adoption and diffusion periods. In this phase, WDI selected to deploy the principles of the Latin American administrative system in its newly revamped operations in Russia, India and China. It also reorganized its operations in Japan and South Korea under a generic application of the Latin American logic of integration. Finally, by appointing the President of WDLA to the top of the EMEA region, it set the stage to migrate the mature European organization toward integrated strategic and organizational practices.

While the adoption of an integrated strategy and organization in different sub-units was induced by WDI as a result of the success of WDLA, the implementation process also shows important degrees of autonomous strategic behavior on the part of the local organizations. Such emphasis on using local knowledge was based on the idea that local executives were better equipped to interpret in depth how local consumers understood the Disney brand in a particular region or country. Such deep understanding would then enable the local Disney office to pursue the best strategic approach for the country or region as was the case in WDLA. The strategic priorities of the integrated organization varied across countries and therefore the organization and sub-units priorities. For instance, in India, WDC focused on television, as it did in Latin America, but also put a strong emphasis on movies, given the importance of Bollywood and the passion of local consumers for theatrical products. In China, this approach was not appropriate, as foreign media was heavily regulated. Therefore, WDC China stressed consumer products, given the explosive expansion of the retail shopping mall culture and the liberal regulation resulting from China's adherence to the World Trade Organization. That is, during the adoption period, the successful roll out of the selected administrative system requires an equilibrium based on maintaining its dominant logic (in our case, the integration of the Disney value proposition) while allowing for regional adaptation to the different competitive environments. Thus:

P5. Successful adoption of the new administrative systems request keeping the original dominant logic and adapting peripheral elements to the different contexts.

The appointment of the President of WDLA as President, culminates the process of consecrating the integrated administrative system as the new "dominant logic" within WDI. Another sign that the retention of the integrated organization became part of the "dominant logic" of WDI is the approach followed by WDI after experiencing serious difficulties during the implementation of the integrated organization in India. WDI reacted to these difficulties replacing the country manager, but maintaining the premise of operating under an integrated organization.

Discussion

Revisiting guided evolution

The process of experimentation of administrative systems that took place within WDI and WDLA in particular helps understanding how the blinded ecological forces are guided (Lovas and Ghoshal, 2000). In doing so, it also helps integrating the rational choice approach with ecological and evolutionary perspectives (Child, 1972; Hannan and Freeman, 1977). An important lesson from the WDLA case is that administrative systems were not exogenously given, as suggested by Lovas and Ghoshal (2000)[1]. Instead, it showed that such systems were endogenously determined. More importantly, it also illustrated that such endogenous determination can be done in an evolutionary fashion and is also a central element in guiding ecological forces. By letting its three regional organizations develop different administrative systems, WDI triggered a process of variation–selection–retention affecting the context within which the myriad of processes of variation–selection–retention of strategic initiatives of the firm takes place. In this way, we can deem the evolution of the administrative systems as a sort of *meta-evolution* that precedes and frames that of strategic initiatives; induced variation is this process of *meta-evolution*.

Burgelman (2002, p. 351) exposes his concerns about the convenience of guided evolution. His analysis refers to decisions about entry and exit into critical business when market and technical uncertainties remains. For the case of Intel, he observed that within Intel's induced-strategy process, guided evolution worked fine, but when guided evolution intent to shame new variations that were not commensurate with the logic of the core business, the result was misguided evolution. This is an important lesson, and our findings do not go against it. Moreover, they reinforce it. The TWDC case reemphasizes the value of autonomous initiatives under a certain administrative context to adequately adapt to the environment. Our conclusions point toward the challenges of experimenting with the administrative systems and mainly to the moment in which eventually contrasting systems has to coexist. The solutions to the tensions that emerge at this moment do not arise as a consequence of the existence of a meta-administrative system, but should be resolved at the level of the agents of selection and retention.

The regional office as an anchor for integrating corporate strategy and international business

This study bridges the gap between the fields of corporate strategy and international business by showing how the co-evolution between sub-unit–level strategic initiatives (Birkinshaw, 1997) and corporate-level initiatives in the context of MNCs may contribute to the creation of corporate or "parenting" advantage (Collis and Montgomery, 1998; Goold and Campbell, 1994). In this paper, we observed the role of the regional office as a source of sub-unit–level initiatives, whereas the corporate-level role was exercised by WDI. The regional level also exercised corporate roles with respect to the Latin American national subsidiaries. The peculiarity of the case of WDI derives mostly from the singular role played by the regional headquarters. Regional offices are usually deemed responsible for the roles of coordination, control and support over subsidiaries of an MNC (Malnight, 1995). Regional headquarters within WDI, however, also played a leading role in exercising strategic and operational responsibilities within their appointed regions. The role of regional headquarters as "deputy" of the global headquarters within MNCs calls for a more intense dialogue between scholars working within the fields of corporate strategy and international business. Traditional analyses of corporate-level strategy, assuming the existence of a single level of headquarters as integrating unit constitute seriously misleading representations of how contemporary MNCs, such as TWDC, are actually organized. In addition, understanding the inner workings of the dual role of the regional headquarters as an organization that simultaneously addresses the opposing pressures toward integration (corporate role) and differentiation (regional role) constitutes in our view a very promising research avenue connecting these two streams of work.

Large-scale experimentation

The literature on organizational change has extensively documented how firms may explore new directions through "organizational experiments", such as business incubators, cross-functional teams or venture capital. However, the development of corporate capabilities at Disney to operate under an integrated system was far beyond the scope of any of these highly focused, rather isolated organizational initiatives funded by "patient money" (Galbraith, 1982; Quinn, 1985; Birkinshaw, 1997; Harreld *et al.*, 2007). The complexity associated with integrating the activities of Disney's businesses in 37 different industries in different countries could only be developed through an "in vivo" experience in an ongoing operation characterized by such complexity.

The case of WDI also shows that an MNC can reap the benefits of experimentation suffering only a fraction of its risk if such experimentation takes place at a rather peripheral (while important) part of the firm. Organizational literature has characterized exploration (March 1991) or "long jumps" (Levinthal, 1997; Rivkin, 2000) as evolutionary paths that offer the promise of major breakthroughs, but also the risk of catastrophic failure, as firms might find themselves trapped in a situation in which the old order is lost for good, while the new order is still to be achieved. By exploring complex novel administrative systems in a geographic area, such as Latin America, that offers the complexity associated with a big regional market, in which several business activities are performed across several countries, WDI found a setting for exploration at a limited downside risk. The implementation of the integrated regional organization could be deemed a corporate real option (Trigeorgis, 1996, i.e. a corporate bet of limited potential downside and unlimited potential upside. This feature of Latin America could benefit other Western firms willing to try new alternative strategies and organizational forms at a limited risk.

Induced variation of administrative systems as a source of new corporate capabilities

The innovation of the administrative systems, if successful, should facilitate the development of new capabilities (Barney, 1991) or firm-specific advantages (FSAs). The successful development of WDLA's novel administrative system enabled TWDC to acquire new FSAs. Rugman and Verbeke (2001) attribute the creation of FSA to the MNC's ability to internalize country-specific advantages (CSAs). Such CSAs result from path-dependent idiosyncratic characteristics of certain countries shaped by institutional and systemic elements that are hard to replicate elsewhere. In the context of our case, it seems more reasonable to refer to regional-specific advantages, as such capabilities were the result of the ability of the corporation to internalize specific advantages associated with WDLA as a whole. While initially developed within a single region, WDI's decision to roll out these FSAs reveals that the firm expected these originally location-bound capabilities to spring out as non-location bound ones (Moore and Birkinshaw, 1998). It is worth reminding that, while the decision to experiment with different administrative systems was induced by WDI, the actual capabilities that sprang out the WDLA organization were the result of the initiatives developed by the regional management and not the outcome of a corporate mandate or "charter" assigned by WDI. In this way, we can say that induced variation within WDI created a context that proved conducive to the emergence of new capabilities. We identified three management innovations within WDLA that we deem as new corporate capabilities within WDI and TWDC in general:

(1) *Managing complex strategic interdependencies between business units:* The integrated administrative system prioritized the value proposition of TWDC as a whole, treating business units as "means" to this end, i.e. as bundles of corporate resources and capabilities to be aligned, coordinated and, more importantly, prioritized according to a company-wide strategy.

(2) *Maintaining and increasing the scope of operations with a much leaner organization:* The system enabled the firm to develop synergies derived from activity sharing (Porter, 1987) due to the creation of a single shared services center in the regional office. In addition, the "double-appointment" policy discussed above eliminated several high-level, expensive staff positions by consolidating such functions under a reduced number of line managers.

(3) *Operating in consumer markets populated by a majority of low income customers:* For a company on the brink of developing market entry in key emergent economies, such as China, India and Russia, the experience of WDLA in reaching the bottom of the socioeconomic pyramid proved to be a very important capability. Initiatives, such as Radio Disney, could also be tried out in other emerging markets.

Rolling out corporate capabilities in MNCs

The capabilities described above revolve around a common big theme: the ability to run businesses in a way that departed radically from TWDC's long-time organizational practices. This managerial ability has two sources. The first source is *domain expertise* (Kor, 2003) related to the Latin American/emerging economies business context, a type of environment which was very different from the usual business domains from the Triad countries within which TWDC operated. Emerging economies have been deemed to share common generic environmental characteristics (Khanna and Palepu, 2000; Kedia *et al.*, 2006; Young *et al.*, 2008). Thus, domain expertise developed within WDLA offered the potential to be rolled out to other emergent economies in which Disney was attempting market entry in the mid-2000s, such as India, China, Poland or Russia. The second source of managerial ability developed within WDLA is *resource expertise* (Sirmon *et al.*, 2007). Resource expertise represents the ability of managers to select and configure a firm's resource portfolio, bundle resources into distinctive combinations and deploy them to exploit specific opportunities (Holcomb *et al.*, 2009). Resource expertise is more generic in nature than domain expertise justifying WDI's attempt to implement the principles developed within WDLA not only in emergent markets but also in developed markets, such as Europe, Japan and South Korea. From the point of view of international transferability of capabilities, we can say that both the domain expertise and resource expertise developed within WDLA constitute non-location–bound FSA (Rugman and Verbeke, 2001).

Conclusion

This paper explores the process whereby an organization may generate intra-organizational variation through initiatives stemming from the induced strategic processes of the firm. Our findings confirm that major drastic reorganization initiatives can actually be approached using an evolutionary approach. Our data showed that WDI's top management team actually induced the development of coexistent alternative administrative systems among its regional operations with the purpose of deciding "in vivo" which one deserved to be selected and rolled out throughout the rest of the organization. The fact that processes autonomously generated by individuals or small groups of people within WDI would have never been able to undertake such a major and drastic reorganization initiative emphasizes the importance of our finding that the induced strategy process of the firm does not necessarily lead to variation reduction, as previous research suggested, but can actually contribute to create variation as a prerequisite for widespread organizational innovation. The capabilities developed by WDC in its Latin American "experiment" were eventually transferred to WDI's broader operations. Such a process was supported by informal internal consulting from top executives in Latin America to their peers in other regions. Moreover, such consulting was encouraged by the President of WDI. Finally, the appointment of the President of WDLA as President, EMEA, constituted a milestone in the process of diffusion of the principles of the Latin American administrative system throughout WDI.

Our work is not free from limitations. First, WDI is not a wholly independent organization, but a (rather significant) part of TWDC. It is worth mentioning that while the organizational change initiative worked very effectively within WDI, so far it has not affected TWDC's operations in the USA. Second, while our work provides several insights on the development of an evolutionary process leading to management innovation, its inductive nature limits its external validity and requires the development of further work for such purpose. A third particular limitation of the case is the company's size. TWDC is large enough to generate variation in administrative systems and to experiment with different alternatives in different regions. Smaller organizations might not have this possibility.

Despite these limitations, this study may open a promising avenue for future research. By considering the administrative system as an endogenous variable of the evolutionary process, it widens our research opportunities on organizational change following evolutionary and ecological perspectives.

Note

1. Our differences with Lovas and Ghoshal (2000) are reasonable because they analyze a company organized by projects, whereas we focus on a more traditional organization.

References

Barney, J. (1991), "Firm resources and sustained competitive advantage", *Journal of Management*, Vol. 17 No. 1, pp. 99-120.

Birkinshaw, J. (1997), "Entrepreneurship in multinational corporations: the characteristics of subsidiary initiatives", *Strategic Management Journal*, Vol. 18 No. 2, pp. 207-229.

Birkinshaw, J., Hamel, G. and Mol, M.J. (2008), "Management innovation", *Academy of Management Review*, Vol. 33 No. 4, pp. 825-845.

Bower, J. (1970), *Managing the Resource Allocation Process: A Study of Corporate Planning and Investment*, HBS Division of Research, Boston, MA.

Burgelman, R. (1983), "A model of the interaction of strategic behavior, corporate context, and the concept of strategy", *Academy of Management Review*, Vol. 8 No. 1, pp. 61-70.

Burgelman, R. (1991), "Intraorganizational ecology of strategy making and organizational adaptation: theory and field research", *Organization Science*, Vol. 2 No. 3, pp. 239-262.

Burgelman, R. (1994), "Fading memories: a process theory of strategic business exit in dynamic environments", *Administrative Science Quarterly*, Vol. 39 No. 1, pp. 24-56.

Burgelman, R.A. (2002), "Strategy as vector and the inertia of coevolutionary lock-in", *Administrative Science Quarterly*, Vol. 47 No. 2, pp. 325-357.

Campbell, D. (1969), "Variation and selective retention in socio-cultural evolution, general systems", *Yearbook of the Society for General Systems Research*, Vol. 16, pp. 69-85.

Chakravarthy, B. and Doz, Y. (1992), "Strategy process research: focusing on strategic renewal", *Strategic Management Journal*, Vol. 13 No. 1, pp. 5-14.

Child, J. (1972), "Organizational structure, environment and performance: the role of strategic choice", *Sociology*, Vol. 6 No. 1, pp. 1-22.

Collis, D. and Montgomery, C. (1998), "Creating corporate advantage", *Harvard Business Review*, Vol. 76 No. 3, pp. 70-84.

Edwards, T., Almond, P., Clark, I., Colling, T. and Ferner, A. (2005), "Reverse diffusion in US multinationals:barriers from the American business system", *Journal of Management Studies*, Vol. 42 No. 6, pp. 1261-1286.

Galbraith, J. (1982), "Designing the innovating organization", *Organizational Dynamics*, Vol. 11 No. 1, pp. 5-25.

Ghemawat, P. (2006), *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*, Harvard Business School Press, Boston, MA.

Glaser, B. and Strauss, A. (1967), *The Discovery of Grounded Theory: Strategies for Qualitative Research*, Aldine Publishing Company, New York, NY.

Goold, M. and Campbell, A. (1994), "From corporate strategy to parenting advantage", in de Wit, B and Meyer, R. (Eds), *On Strategy: Process, Content, Context*, West Publishing Company, New York, pp. 287-290.

Hamel, G. Birkinshaw, J. and Mol, M. (2008), "Management innovation", *Academy of Management Review*, Vol. 33 No. 4, pp. 825-845.

Hannan, M.T. and Freeman, J. (1977), "The population ecology of organizations", *American Journal of Sociology*, Vol. 82 No. 5, pp. 929-964.

Harreld, B., O'Reilly, C. III and Tushman, M. (2007), "Dynamic capabilities at IBM: driving strategy into action", *California Management Review*, Vol. 49 No. 4, pp. 21-42.

Holcomb, T., Holmes, Jr, R. and Connelly, B. (2009), "Making the most of what you have: managerial ability as a source of resource value creation", *Strategic Management Journal*, Vol. 30 No. 5, pp. 457-485.

Hughes, K. and Oughton, C. (1993), "Diversification, multi-market contact and profitability", *Economica*, Vol. 60 No. 238, pp. 203-224.

Kedia, B. Mukherjee, D. and Lahiri, S. (2006), "Indian business groups: evolution and transformation", *Asia Pacific Journal of Management*, Vol. 23 No. 4, pp. 559-577.

Khanna, T. and Palepu, K. (2000), "The future of business groups in emerging markets: long run evidence from Chile", *Academy of Management Journal*, Vol. 43 No. 3, pp. 268-285.

Kor, Y. (2003), "Experience-based top management team competence and sustained growth", *Organization Science*, Vol. 14 No. 6, pp. 707-719.

Lam, A. (2003), "Organizational learning in multinationals: R&D networks of Japanese and US MNEs in the UK", *Journal of Management Studies*, Vol. 40 No. 3, pp. 673-703.

Levinthal, D. (1997), "Adaptation on rugged landscapes", *Management Science*, Vol. 43 No. 7, pp. 934-950.

Lovas, B. and Ghoshal, S. (2000), "Strategy as guided evolution", *Strategic Management Journal*, Vol. 21 No. 9, pp. 875-896.

Malnight, T. (1995), "Globalization of an ethnocentric firm: an evolutionary perspective", *Strategic Management Journal*, Vol. 16 No. 2, pp. 119-141.

Malnight, T. (1996), "The transition from decentralized to network-based MNC structures: an evolutionary process", *Journal of International Business Studies*, Vol. 27 No. 1, pp. 43-65.

Malnight, T. (2001), "Emerging structural patterns within multinational corporations: toward process based structures", *Academy of Management Journal*, Vol. 44 No. 6, pp. 1187-1210.

Markides, C. and Williamson, P. (1994), "Related diversification, core competences and corporate performance", *Strategic Management Journal*, Vol. 15, pp. 149-165.

Markides, C. and Williamson, P. (1996), "Corporate diversification and organizational structure: a resource-based view", *Academy of Management Journal*, Vol. 39 No. 2, pp. 340-367.

Mintzberg, H. (1994), "The fall and rise of strategic planning", *Harvard Business Review*, Vol. 72 No. 1, pp. 107-114.

Mintzberg, H. and McHugh, A. (1985), "Strategy formation in an adhocracy", *Administrative Science Quarterly*, Vol. 30 No. 3, pp. 160-197.

Moore, K. and Birkinshaw, J. (1998), "Managing knowledge in global service firms: centers of excellence", *The Academy of Management Executive*, Vol. 12 No. 4, pp. 81-92.

Ouchi, W. (1980), "Markets, bureaucracies, and clans", *Administrative Science Quarterly*, Vol. 25 No. 1, pp. 129-141.

Porter, M. (1987), "From competitive advantage to corporate strategy", *Harvard Business Review*, Vol. 65 No. 3, pp. 43-59.

Prahalad, C. and Bettis, R. (1986), "The dominant logic: a new linkage between diversity and performance", *Strategic Management Journal*, Vol. 7, pp. 485-501.

Prahalad, C.K. and Hamel, G. (1990), *The Core Competence of the Corporation*, Harvard Business Review, Boston, MA, pp. 235-256.

Quinn, J. (1985), "Managing innovation: controlled chaos", *Harvard Business Review*, Vol. 63 No. 3, pp. 73-84.

Rivkin, J. (2000), "Imitation of complex strategies", *Management Science*, Vol. 46 No. 6, pp. 824-844.

Rugman, A. and Verbeke, A. (2001), "Subsidiary-specific advantages in multinational enterprises", *Strategic Management Journal*, Vol. 22 No. 3, pp. 237-250.

Schön, D. (1983), *The Reflective Practitioner: How Professionals Think in Action*, Basic Books, New York, NY.

Schön, D. (1987), *Educating the Reflective Practitioner: Toward a New Design for Teaching and Learning In the Professions*, Jossey-Bass, San Francisco, CA

Simon, H. (1996), *The Sciences of the Artificial*, The MIT Press, Cambridge.

Sirmon, D., Gove, S. and Ireland, R. (2007), "Managing firm resources in dynamic environments to create value: looking inside the box", *Academy of Management Review*, Vol. 32 No. 1, pp. 273-292.

Treacy, M. and Wiersema, F. (1995), "How market leaders keep their edge", *Fortune*, Vol. 131 No. 2, pp. 52-57.

Trigeorgis, L. (1996), *Real Options: Managerial Flexibility and Strategy in Resource Allocation*, The MIT Press, Cambridge, MA.

Tushman, M. and Anderson, P. (1986), "Technological discontinuties and organizational environments", *Administrative Science Quarterly*, Vol. 31 No. 3, pp. 439-465.

Tushman, M. and Romanelli, E. (1985), "Organization evolution: a metamorphosis model of con-vergence and reorientation", in Cummings, L.L. and Staw, B.M. (Eds), *Research in Organizational Behavior*, Vol. 7, JAI Press, Greenwich, CT, pp. 171-222.

Weick, K. (1979), *The Social Psychology of Organizing*, 2nd ed., Addison-Wesley, Reading, MA.

Yin, R.K. (2002), *Case Study Research: Design and Methods (Applied Social Research Methods)*, Vol. 5, SAGE Publications.

Young, M., Peng, M., Ahlstrom, D. and Bruton, G. (2008), "Corporate governance in emerging economies: a review of the principal-principal perspective", *Journal of Management Studies*, Vol. 45 No. 1, pp. 196-220.

Further reading

Roberts, J. (2004), *The Modern Firm: Organizational Design for Performance and Growth*, Oxford University Press, Oxford.

Corresponding author

Roberto S. Vassolo can be contacted at: rvassolo@iae.edu.ar