INDUCED VARIATION IN ADMINISTRATIVE SYSTEMS: EXPERIMENTING WITH CONTEXTS FOR INNOVATION

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ABSTRACT

Research on intra-organizational evolution determined that variation results from the autonomous strategic behavior of the firm. We revisit this idea by examining a case of induced variation, where a multinational firm experimented with different, coexisting, region-specific sets of administrative systems. Our findings help explain the conditions under which induced variation arises.

THEORETICAL BACKGROUND

A fundamental question for strategy process research is how an organization modifies its administrative systems both in response to environmental changes and through its own proactive actions (Chakravarthy and Doz, 1992). The question is particularly relevant for complex firms such as MNCs, since they have elaborate administrative systems and face very different competitive landscapes simultaneously (Malnight, 2001). We define administrative systems as the basic way in which tasks are divided and work is organized within the firm, including configurations of structures, systems, culture, and leadership practices (Chakravarthy and Doz, 1992; Lovas and Ghoshal, 2000). Administrative systems provide the context for variation, selection and retention of new strategic initiatives and help ensure that this process is informed by local knowledge (Lovas and Ghoshal, 2000). Understanding how complex firms modify their administrative systems is critical to understanding how these firms evolve.

Previous literature on organizational evolution established that internally generated variation stems only from the autonomous strategic process of the firm (Burgelman, 1983, 1991, 1994; Mintzberg and McHugh, 1985). However, autonomously generated variation is not expected to arise in situations where the magnitude of the event – for instance, a major or drastic reorganization – transcends the ability of any sub-unit to undertake it. Therefore, any attempt to introduce intra-organizational variation aimed at effecting organization-wide change can only be generated through deliberate decisions made by top management, referred to by Burgelman as the induced strategic process of the firm (Burgelman, 1983). Induced strategic behavior is consistent with the categories used in the strategic planning process of the firm. Consequently, induced strategic processes have a variation-reduction effect on the set of strategic initiatives available to the firm (Burgelman, 1991).

In this paper we revisit the proposition that induced strategic processes are necessarily variation-reducing. We explore whether and how a major change in a firm's administrative systems can be managed in an evolutionary fashion through *induced strategy processes that increase variation*. A critical condition for such an evolutionary process to function is the existence of enough variance for the selective forces to operate (Campbell, 1969). This condition is particularly challenging when adjusting administrative systems, as it requires experimenting with different systems simultaneously within the same firm. Such experimentation is mainly possible in organizations of considerable size and complexity. Although organizational experimentation initiatives of limited scope, such as business incubators or project teams within big firms, have received attention in the literature (Birkinshaw, 1997; Harreld et. al., 2007), we are not aware of any other studies exploring organizational experimentation affecting the "core" administrative systems of the firm at a large scale. Our study thus contrasts with previous studies which view administrative systems as exogenously determined elements within which strategic initiatives are endogenously selected (Burgelman, 1994; Lovas and Ghoshal, 2000; Malnight, 2001).

We adopt an inductive perspective to explore this phenomenon through a single-case research study aimed at documenting the process of experimentation and subsequent selection and adoption of new administrative systems by a large multi-business MNC. Specifically, we report the findings of longitudinal field research carried out at Walt Disney International (WDI), the organization responsible of all non-US operations of The Walt Disney Company (TWDC). We document how WDI experimented with different administrative systems simultaneously as a way to determine which one constituted the fittest context for innovation and capability development. We also examine the process of diffusion of the selected administrative systems across all other units within WDI. This experimentation, selection and diffusion process was the outcome of an intra-organizational evolutionary process induced by WDI's top management.

Our paper's main contribution is the concept of *induced variation*, understood as intra-organizational variation deliberately created at the top level of the organization in order to trigger an intra-organizational evolutionary process of management innovation. This finding extends Burgelman's discussion of induced and autonomous strategic behavior by showing that induced processes need not necessarily be variation-reducing but may, instead, prove variation-enhancing. Moreover, we explain how an evolutionary process aimed at selecting the best out of competing administrative systems unfolds in a MNC and may help create new corporate capabilities (Collis and Montgomery, 1998).

METHODS

This study is the result of a research project that tracked the evolution of different administrative systems at WDI, with special focus on the systems developed at The Walt Disney Company Latin America (WDLA). Research design was based on a longitudinal, two-stage, single-case study (Yin, 2002). In the absence of previous studies of MNCs where an intra-organizational evolutionary approach was followed to experiment with and subsequently select the fittest administrative systems, we "let the case speak", albeit through the lens provided by intra-organizational evolutionary theory (Weick, 1979; Burgelman 1983; 1991).

Data collection was carried out in two stages. During the first stage (November 2005-October 2006), we focused on understanding the particulars of the administrative systems deployed at WDLA. During the second stage (September 2008-October 2009), we tracked the selection and retention of the organizational principles underlying WDLA's systems throughout WDI. Both archival and interview data were collected and coded.

EXPERIMENTATION IN ADMINISTRATIVE SYSTEMS AT WDI

Stage 1: Inception. In 1999, Michael Eisner, CEO of TWDC, decided the firm should put profitability at the forefront after a period of fast but relatively unprofitable revenue growth. One of his key objectives in that respect was to boost the firm's international operations, which at the time represented only 20% of revenues. Up to that point, TWDC's international businesses had been run by five global business units built around specific products and services: Studio Entertainment, Home Entertainment, Consumer Products, Parks & Resorts, and Media Networks. Although all business units shared the same "core content" (Disney's intellectual property), they remained strategically and operationally autonomous.

Eisner subsequently appointed Robert Iger to the newly-created position of President of WDI with the purpose of having a single executive lead the firm's efforts outside of the United States. WDI would be organized in three regions: EMEA, Asia, and Latin America, each led by a Regional President who reported to Iger. The International organization would coexist with the existing global business units.

Iger summoned his Regional Presidents and asked them for input on the way WDI should be organized. The President, WDLA seized the opportunity to put forth a contingent approach he had been discussing with his management team. He proposed the replacement of the current administrative systems based on vertically autonomous business units with an integrated organization that would reach the customer with "a single Disney voice, vision and front concept". This proposal was counterbalanced by that of the Regional President, EMEA. He favored the traditional Disney approach of autonomous, vertically-oriented business units to ensure focus, responsiveness, and clear accountability. In the face of disagreement around two very disparate visions on how to organize WDI, Iger decided to allow each region to organize its operations in the way they considered most adequate to their particular context. The implementation of integrated administrative systems in Latin America was deemed a *corporate experiment* within TWDC that, while radical in nature, posed limited risk due to the small financial impact of the region in TWDC's global operations.

Stage 2: Implementation and Experimentation. The President, WDLA introduced significant changes to the region's administrative systems. He unified all business units under a single regional entity, providing a distinct reference point to guide decisions and behavior.

In terms of operations, he concentrated all regional operations in Buenos Aires and reduced the region's headcount. Regional supervision-only jobs were eliminated, favoring a *double-appointment* model whereby executives with regional functions would also hold line responsibilities in their respective countries, managing operations of a specific business. Additionally, functions such as Finance and HR, formerly duplicated across business units and countries, were merged into a single regional Shared Services Center.

In terms of strategy, each country had teams of specialists who brought their product expertise forward to create the best integrated plan to exploit Disney's intellectual property. Instead of managing content with a division-centric approach, like other regions, WDLA followed an integrated, *property-centric* view. This approach led to significant tension with the heads of Global Business Units. The VP Strategy and Business Development, WDLA stated: "We said: "Ladies and gentlemen in Television, Consumer Products, Digital Media, Studios, Home Entertainment: we will manage [the company's] property in a different way than you will manage it worldwide […]. We will have only one team behind the 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. These results are going to be larger than the sum of the individual results we would obtain by managing the property the way you do."

In parallel, 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. Radio Disney was one of the initiatives this position gave rise to. Research revealed that Disney was an aspirational brand in Latin America, as mid and low income consumers wanted Disney, even if they could not afford it. Radio Disney sought to create a widely accessible communication channel that could reach this vast population. In a non-integrated organization, a low-revenue venture such as Radio Disney would have had trouble holding its own vis-à-vis other business lines. The President, WDLA stated: "Radio Disney is not a brilliant business, financially speaking. For us, it is a strategic business. It helps us establish a solid connection with vast lower income households."

Stage 3: Legitimation. The creation of WDI created tension among global business unit heads, who feared a loss of control of their businesses' global P&Ls. Moreover, the deployment of integrated administrative systems in Latin America meant that they would have no clear, fully accountable counterpart in that region. As the Latin American organization gained momentum and visibility, conflicts with the global business units multiplied and political friction escalated. 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, WDLA explained: "Telling you that we have been planning in advance what we would be doing today would be totally untrue and incorrect. […]. We had enormous amounts of issues that we had no idea how to tackle. […] We acted just led by our common sense. And we preferred to ask [the corporation] for forgiveness rather than for permission." 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."

Stage 4: Consolidation and Dissemination. By 2005, the performance of WDLA was impressive. Revenues had increased by 400% and net income doubled. WDLA's share in TWDC's revenues went from less than 2% in 1999 to approximately 5%. That year, Iger was appointed CEO of TWDC, an event that boosted the corporate-wide impact of WDLA's integrated administrative systems. The recently re-launched operations of Disney in Russia, China and India were organized under the Latin American logic, which was later diffused to other, more established, markets such as Japan and South Korea. The European organization was influenced by such diffusion process as the new President of WDI, Andy Bird, enforced the double appointment model within the region in 2007 and strongly encouraged the regional organization to move towards cross-business integration. In a subsequent and more decisive move, in March 2009, the President, WDLA was appointed President, EMEA. The executive is now at the helm of both regions.

In short, within 10 years of the creation of WDI and the induced variation process set forth by Iger, the integrated administrative systems first experimented with in Latin America were adopted almost comprehensively throughout all regions under WDI. Only TWDC USA maintained the traditional administrative systems around strategically autonomous business units.

INTRA-ORGANIZATIONAL PROCESSES OF INDUCED VARIATION IN ADMINISTRATIVE SYSTEMS

Our analysis of WDI's decision to experiment with the adoption of integrated administrative systems in Latin America, the evolution of the Latin American organization, and its diffusion across other regions led to several theoretical insights on how firms may benefit from approaching management innovation in an evolutionary fashion. Our model, depicted in Figure 1, is theoretically grounded in the variation-selection-retention framework (Campbell, 1969, Weick, 1979) and in Burgelman's notions of induced and autonomous strategic behavior (Burgelman, 1983, 1991). The model's main components are the following:

Insert Figure 1 here

Autonomous motivation for variation. The impetus to change the administrative systems at WDLA was the result of an autonomous vision developed by the region's newly appointed President, rooted in environmental and industrry-specific trends which were expected to affect his company. The initiative gathered momentum as the President of WDI explicitly asked Regional Presidents for input on how international operations should be organized.

Induced variation. Iger's decision to delegate the decision of how to craft the administrative systems of each region had two important implications. First, it created the conditions for the development of induced variation in the administrative systems of the three regions within WDI. Second, it enabled WDLA to implement radically new administrative systems following autonomous strategic behavior.

Selection (autonomous implementation at regional level, WDLA). WDLA launched and implemented the new administrative systems introducing initiatives whose characteristics matched the autonomous strategic behavior defined by Burgelman (1983): (a) introduction of new categories for the definition of opportunities (e.g. WDLA's integrated approach to intellectual property management) and (b) the conception of new business opportunities (e.g. the launch of Radio Disney). In so doing, WDLA used two primary approaches associated with the implementation of in-vivo managerial innovation (Birkinshaw, Hamel and Mol; 2008): trial-and-error and reflection-in-action (Schön, 1983, 1987).

Selection (induced at corporate level). WDI selected to diffuse the principles of WDLA's administrative systems in its newly revamped operations in Russia, India and China. It also reorganized its operations in Japan and South Korea under the same logic. Finally, by appointing the President WDLA to the top of the EMEA region, it set the stage to migrate the mature European organization towards more integrated strategic and organizational practices.

Selection (autonomous implementation at regional level, rest of WDI). Although the adoption of integrated administrative systems in different regions 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. WDI appointed highly-experienced local executives as country managers who would be best equipped to interpret in depth how local consumers understood the Disney brand. In addition, while all regions within WDI were eventually organized in an integrated fashion, such organizations supported different strategic priorities (e.g. television and studio entertainment in India; retail in China).

Retention. Widespread roll-out across WDI of the organizational principles crafted within the WDLA organization, under the support of CEO Iger, led us to conclude that the new administrative system became institutionalized as WDI's new dominant logic (Prahalad and Bettis, 1986).

The integrated administrative systems developed and implemented in WDLA acted as a renewed *context for innovation* by enabling TWDC to develop a series of new corporate capabilities (Barney, 1991; Collis and Montgomery, 1998):

Managing complex interdependencies. WDLA's integrated administrative systems prioritized the "one voice, one front concept" value proposition, treating business units as "means" to this end, i.e. as bundles of corporate resources and capabilities to be aligned, coordinated and reprioritized according to a company-wide strategy.

Increasing the scope of operations with a leaner organization. The reorganization of WDLA enabled the firm to develop synergies derived from sharing the regional shared services center. In addition, the double-appointment policy eliminated several high-level, supervision-only positions in favor of line positions.

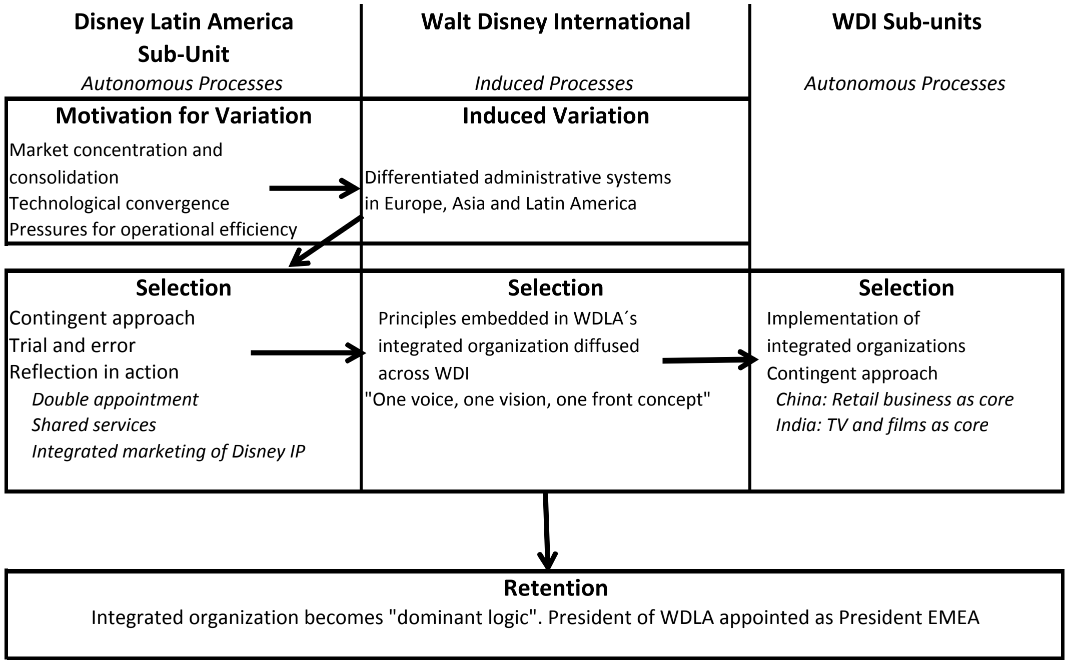
Operating in consumer markets populated by a majority of low income consumers. For a company on the brink of developing market entry in key emergent economies such as China, India and Russia, the experience of WDLA in reaching the lower levels of the socioeconomic pyramid proved a valuable source of insight.

CONCLUSION

Our findings confirm that major drastic reorganization initiatives can actually be implemented 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. Our findings extend work on the organization of MNCs under an evolutionary perspective. Previous work by Malnight (1996, 2001) reported the selective role carried out by the corporate strategy of the firm during the process of organizational evolution. Our study also helps to create a dialogue 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 (Goold and Campbell, 1994). The case of WDI also shows how, through a process of induced variation as the one created within WDI, an MNC can reap the benefits of exploration (March 1991) or long jumps (Levinthal, 1997) without necessarily facing the inherently high risks associated with such dynamics.

REFERENCES AVAILABLE FROM THE AUTHORS

Figure 1. Evolutionary Processes for Innovation in Administrative Systems at WDI


Disney Latin America Sub-Unit
Autonomous Processes
Walt Disney International
Induced Processes
WDI Sub-units
Autonomous Processes
Motivation for Variation
Market concentration and consolidation
Technological convergence
Pressures for operational efficiency
Induced Variation
Differentiated administrative systems in Europe, Asia and Latin America
Selection
Contingent approach
Trial and error
Reflection in action
Double appointment
Shared services
Integrated marketing of Disney IP
Selection
Principles embedded in WDLA´s integrated organization diffused across WDI
"One voice, one vision, one front concept"
Selection
Implementation of integrated organizations
Contingent approach
China: Retail business as core
India: TV and films as core
Retention
Integrated organization becomes "dominant logic". President of WDLA appointed as President EMEA