A Co-evolutionary Perspective on International Strategy

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Abstract

This study aims to illustrate and identify the internal and external factors affecting firm’s strategic choice of international strategy. To fulfill this objective, we incorporate co-evolutionary approach to advance our understanding on how firms interact and influence mutually with their environments. This study, based on the co-evolutionary perspective, propose and examine a relatively comprehensive model of the development of firms with the focus on their international strategies. With a focus on the co-evolution, we purpose two types of international strategies- global strategy and multi-focal strategy to remove or reduce the constraints from the environment. It is hoped that the results and findings of this study will advance the theoretical contributions of the development and strategic behaviors of firms, and provide insightful applications to business practices.

Key words: co-evolutionary perspective; international strategy

INTRODUCCION

Firms are not autonomous entities, but embedded in networks of cooperative or competitive relationships (Galaskiewicz & Zaheer, 1999; Granovetter, 1985; Gulati, 1998; Gulati, Nohria & Zaheer, 2000) which profoundly influence their behaviors. From the system theory perspective, it is perfect that the firm becomes a closed-system of logic. It means the
system contains relevant variables, and just relevant variable. The system excluded all other influences / exogenous variables. However, firms never conform to closed-system logic but demands the logic of an open-system, namely all activities are embedded in and independent the activities which are open to the environment elements (Thompson, 1967). According to the arguments from Thompson (1967), the “environment” refers to “everything else”. To adopt the concept of task environment used by Dill (1958) composed for four major sectors: (1) customers (both distributor and users); (2) supplier of material, labor capital equipment and work space; (3) competitors for both markets and resources; and (4) regulatory groups, including governmental agencies, unions, and inter-firm association. In other words, the actions of a firm must depend on the internal capability but also the external environment factors. Totally speaking, the evolution of organizations cannot be understood independently from the simultaneous evolution of the environment (McKelvey, 1997).

Most strategy researchers agree that the environment is central to a firm's existence, and acknowledge that there is indeed a close relationship between strategic or organizational choices and the characteristics of an organization's environment (Aldrich, 1979; Lawrence & Lorsch, 1967; Rumelt, 1974). Aldrich and Pfeffer (1976) argue that managerial choice may be several constrained by some environment and that managers must correctly perceive the nature and dictates of the environment. Over the last two decades, a key premise of the academic management literature is that a successful firm’s strategy and structure should
favorably align the business with its environment. However, change is not merely an outcome of managerial adaptation or environmental selection but rather the joint outcome of intentionality and environmental effects. We believe that single theme explanations of the adaptation–selection phenomenon have limitation and it should to consider joint outcomes of intentional adaptation and environmental selection pressures. With a few exceptions researchers have tended not to address the interrelationship between firm-level adaptation and population-level selection. Co-evolutionary perspective includes the premise that adaptation and selection are not orthogonal forces but are fundamentally interrelated (Volberda, 2003). A co-evolutionary perspective assumes that change may occur in all interacting populations of organizations, permitting change to be driven by both direct interactions and feedback from rest of system. Hence, our research question in this paper attempts to understand how and why organizations remove or reduce contingencies positively with co-evolutionary theory instead of adapting and selection from the contingencies passively

THEORY PERSPECTIVE AND LITERATURE REVIEW

The rationale of co-evolutionary perspective

Recently, Co-evolutionary perspective have seen an increase in studies of understanding the dynamic nature between organizations and their environment (Lewin & Volberda, 1999; Baum, 1999; Lewin, Long & Carroll, 1999; Mukherji & Hurtado, 2001; Rodrigues &
Co-evolution is identified as joint outcome of managerial intentionality, environment, and institutional effects (Lewin & Volberda, 1999). Consistent with this definition, organizations, their populations, and their environments are considered as interdependent outcomes of managerial actions, institutional influences, and extra-institutional changes (Lewin & Volberda, 1999). In essence, co-evolutionary perspective provides a new framework to the debate in organization theory whether patterns of organizational attributes and relationships are formed by environmental determinism or management adaptation. Instead, the dynamic nature of organizational change and renewal are accounted by concurrent operating of adaptation and selection (Flier, Van Den Bosch & Volberda, 2003). Adaptation and selection are not wholly opposing forces but are fundamentally interrelated and co-evolving. In this light, co-evolutionary approach stresses that organizational and environmental dynamics and circumstances are forged from their reciprocal interactions. Thus, causes and effects of interaction among organizations and their environments over time have been the main emphasis in the studies from co-evolutionary perspective (Flier et al., 2003).

Indeed, co-evolutionary framework indicates that organizational forms and practices have their genesis in a particular set of social and political circumstances forged from the interaction of both exogenous and endogenous influences (Carney & Gedajlovic, 2002). Thus, co-evolutionary perspective involves varying levels of analysis from the micro level to macro
level, as reciprocal interactions are the focal point. While micro co-evolution refers to co-evolution within firms, macro co-evolution takes place between firms and their niche (McKelvey, 1997). Interactions of influences between different levels are a key phenomenon to be studied in co-evolutionary research (Flier et al., 2003; Lewin & Volberda, 1999). Being embedded in an institutional environment, competitive environment, and firm resources, interactions of influences generate certain mechanisms that drive specific co-evolutionary patterns. Thus, co-evolutionary theory requires researchers to focus on dynamic interrelationships between organizations and their environments, putting a strong emphasis on institutional and market mechanisms in particular as well as on organizational mechanisms (Baum & Singh, 1994). Consistently, the co-evolutions of institutions, markets, and firm resources that drive strategic choices at both macro and micro levels over time have been the focal point among the researchers of co-evolutionary theory (Carney & Gedajlovic, 2002;).

A large body of research provides a single lens for accounting organizational strategies and actions. For instance, institutional theorists view political, normative, cultural and institutional pressures in the social context as main shapers of organizational practices and strategies. Market centered theories, consistent with neoclassical economics, treat markets as central in explaining organizational behavior and strategies. The resource-based view accounts strategic choices of organizations with the dynamic resources they have over time. On the other hand, in a co-evolutionary approach, organizational strategies and actions, and
thus the interrelationships of business and the media are considered to take form as the joint outcome of institutional environment, market mechanism, and organizational capabilities (Lewin & Volberda, 1999). We believe that a co-evolutionary perspective, incorporating the traditional views of the single theories with the views jointly derived from interaction effects between multiple levels of analysis can provide comprehensive insights about the dynamic nature. Therefore, we take a co-evolutionary perspective for understanding why organization how to reduce or remove contingencies.

**PROPOSITIONS**

The essence of organizational response is to be able to first understand the competitive environment, and then to develop predictions about the economic and competitive environment in order to respond appropriately (Waddock & Isabella, 1989). Strategic issues are environmental events that may have an important impact on organizational performance (Ansoff, 1980). Responses depend on the way environmental conditions have been labeled. Based on the reasoning so far in this article, the perceived process of the environmental signals is critical. Included in the categorization process are labels like “crisis”, “threat” and “opportunity”.

In this study we focus on industry dynamism — industry change that is difficult to predict. Dynamic environments are characterized by unpredictable and rapid change, which increases uncertainty for individuals and firms operating within them (Duncan, 1972; Dess & Beard, 1984). Uncertainty is the difference between projected and actual outcomes, and results from the limited availability of information for decision making (Simon, 1955). Duncan (1972) proposed two dimensions of perceived environmental uncertainty, that is, the
combination of complexity and rate of change (variability). Complexity refers to the number of environmental variables and their interdependence. Rate of change refers to the number of environmental outcomes that moderate confidence in environmental predictions. Daft, Sormunen, and Parks (1988) also defined perceived environmental uncertainty as a composite index of complexity and rate of change. In dynamic environment, managers must accelerate the speed of the strategic decision-making process. They may also rely more on exploration and innovation as against structured decision-making. Due to high levels of uncertainty, decision makers working in dynamic environments tend to suffer from greater information processing burdens (Tushman, 1979). Following this, Daft and Weick (1984) have developed a model combining assumptions about the environment along with an appropriate response sequence by an organization. An organization's level of intrusion or response would depend on whether the environment was considered analyzable or unanalyzable. Daft and Lengel (1986), in a further refinement to modeling the environment, have included the dimensions of equivocality, certainty, analyzability, variety, and intrusiveness to Daft and Weick's (1984) model. Waddock and Isabella (1989), in assessing managerial beliefs about the environment in a simulation study, used the dimensions of analyzability, predictability and understandability to capture this construct.

The population ecologists point out organizations can to some extent adapt to the environment when that environment is relatively stable (Barnett & Burgelman, 1996; Baum & Singh, 1994). However, as radical change of the environment, the organizational population will generate a variety of strategies. Firms who have tried a different strategy have to comply with this dominant strategy; otherwise they will be selected out. In an uncertain environment, changes in the power structure and competing ideas result in different strategic thinking,
which gives rise to the emergence of new strategies. The strategy choice patterns of firms within a particular industry will be predominantly characterized by exploitation actions. In times of high rates of environmental change, this theoretical lens suggests the firms should exploit their niche, for example, exploit the market or the product. As Thompson’s arguments (1967) that the technique perfection seems more nearly approachable when the organization has control over all the elements involved. In his research, he provide some strategy to handle otherwise crucial contingencies frequently forces organizations to acquire components of unequal capacities, and to balance the constraints from the contingencies.

Thompson’s (1967)arguments that organization employing long-linked technologies seek to expand domains through vertical integration; employing the intensive technologies to seek expand the domain by incorporating the object worked on; and employing mediating technologies to expand the domain populations served. Thompson (1967) expects organization subject to rationality norms to seek to grow until the last- reducible component is approximately full occupied. If necessary, organizations will excess capacity seek to enlarge their domain. In sum, the technologies pressures toward reduction of uncertainty, coupled with the uncertainties and contingencies inherent in environment, generate pressures for organization.

Smircich and Stubbart (1985) have gone beyond the usual debate between the objective and subjective environment, and have suggested that environments are, in fact, "enacted" by
strategists. According to them, a perceived or subjective environment takes place, as strategists are permanently trapped by bounded rationality (Simon, 1957), and by their incomplete and imperfect perceptions of the environment. The domain of an organization and recognized by its environment determines the points which the organization is depend, facing both constraints and contingencies (Thompson, 1967). To maintain the self-control, the organization must have some ways to response the changeable external effects. The more an organization is constrained in some sectors of its located environment, the more desires it will seek over remaining elements of current environment. When the organization is unable to achieve such a balance, it will seek to enlarge its task environment. Next, our research will propose two international strategies to maintain or enlarge the domain of organizations when having high rate of environment, and we hope through strategies for interaction, organizations maybe remove or reduce contingencies through implementing international strategies

Anderson and Paine (1975) suggest that, depending on the perceptions of both environmental and internal properties, managers have a certain degree of freedom in making strategic choices to interact with various contingencies. Based on the characteristics of the environment as conceptualized by various researchers that have just been discussed, a two-dimensional matrix, One dimension is the level of analyzability in terms of being able to (or not being able to) discern patterns in the environment (Daft & Lengel, 1986; Waddock & Isabella, 1989). The second dimension is whether or not an organization feels it is able to
exercise control over the environment (Schneider & De Meyer, 1991). It could be reasonably argued that, if managers had a choice, they would prefer high control environments to low control environments. In addition, within the context of high control environments, managers, based on rational choice, would prefer analyzable to unanalyzable environments. In this paper, we will focus on the strategic alternatives open to an organization when it extends its activities across domain. For both products and services, the international strategy can be seen as an outcome of the interrelationship of industry characteristics, strategic flexibility and organizational capability (Segal-Horn & FaulKner, 1999).

The integration-responsiveness framework developed by Prahalad and Dos (1987), refined by Bartlett and Ghoshal (1989), refinements were an extension of conceptualization of industry pressures to incorporate generic strategic responses by Porter (1986), was perhaps the widely accepted explication of international strategy. One kind of international strategy is based on the perception that industry pressures are primarily toward “global integration” with an emphasis placed on product-market standardization, and global strategic coordination. It is also a strategy that is characterized by standardized needs, standardized practice and process, and standardized customer service (Roth & Marrison, 1990; Mukherji et al., 2008). Another international strategy is “multi-focal” strategy which is based on the attempt to simultaneously respond to both local responsiveness and global integration pressures, where businesses coordinate some of their collective operations while maintaining a high level
responsiveness to each local context (Roth & Morrison, 1990; Mukherji et al., 2008). The strategy is intended to satisfy strong local needs, and is “negotiated to satisfy host government or local market requirement” (Prahalad & Doz, 1987). The strategies are usually associated with customizing products based on local knowledge, adapting to local markets, and providing localized service (Roth & Morrison, 1990). In effect, a multi-focal strategy is a form of dual responsiveness where a firm simultaneously faces strong local responsiveness pressures and yet to optimize some global integration advantages. It is a strategy where business coordinates some of their collective operations while maintaining a high level of responsiveness to each local context (Roth, Morrison, 1990, Mukherji et al., 2008). It would be tempting to argue that dominant control be associated with strategies of global integration and shares control with multifocal strategies. In this paper, we suggest organization maybe remove or reduce contingencies through implementing international strategies. To the Purpose, we suggest the following proposition:

H1: From the rationale of co-evolutionary perspective, with high control, organization employing global strategy to seek to maintain and expand their domain to interact with the contingencies.

H2: From the rationale of co-evolutionary perspective, with low control, organization employing multi-focal strategy to seek to maintain and expand their domain to interact with the contingencies.
CONCLUSIONS

Co-evolutionary perspective has seen an increase in studies of understanding the dynamic nature between organizations and their environment. As co-evolution is at the root of self-organizing behavior, it is important to reflect on how our findings contribute to the understanding of self-control organizations. This study seeks to explore the nature of environment dynamic, and explain why organizations carry out international strategy from co-evolutionary perspective, instead of Resource-based perspective, or adaption-selection single-lens perspective.

The results and contributions are described below respectively. It is a conceptually study by analysis of the nature of environment, that can advance our understanding on our task environment and facilitate further researches. Secondly, a well-organized and systematic framework, based on solidly reasoning of theories, is developed, and an objective and meaningful empirical investigation would be feasible. Furthermore, the theoretical foundation of co-evolutionary perspective would be refined via the conversations and brain-storming of field and case study, and then provide more useful suggestions for the practice.

Environment has been considered as a critical issue by multidisciplinary scholars. The examination of interrelationship among organizations, their populations, and their environments which are considered as interdependent outcomes of managerial actions, institutional influences, and extra-institutional changes can provide some theoretical implications for the fields of organization theory, strategic management and international
business. In addition, competition and cooperation with industry stakeholders is an issue concerned by business managers. Therefore, research results in this study may provide insights for practices as well.
REFERENCES


