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Title: Evolutionary theory of the globalisation of firms

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Abstract

Existing theories of the globalisation of firms fall short of integrating evolutionary, self-reproductive mechanisms. This paper serves to provide an overview on existing literature in systems theory that may serve to develop a basic framework for the study of evolutionary processes in the globalisation of firms.

1 Introduction

Theories explaining the internationalisation or globalisation of firms define firms as goal-directed organisations. The focus is on intended development processes based on decision-making. Learning-based theories such as the incremental models of the Upsalla School (Johanson/Vahlne 1977) and the Helsinki School (Luostarinen 1980) also include learning processes but do not explicitly explain the underlying evolutionary mechanisms that drive the globalisation of firms. A firm that is conceptually constituted by individuals as its elements cannot reproduce itself as individuals do not “reproduce” themselves in the organisation – only their communications and actions do. In order to allow for a study of evolutionary mechanisms based on self-reproduction, an ontological change in the question of what a firm is would be necessary. In this paper, social systems theory will be used to develop a model of a firm that is constituted by communication and actions rather than by individuals and assets. On this basis, the observation of self-reproduction (i.e. on the basis of the own elements) becomes possible. The observation of globalisation processes thus gets a totally different angle as the self-reproduction of a firm is embedded in a co-evolutionary interplay with its globally differentiated environment.

2 Properties of firms as social systems

An evolutionary perspective on the globalisation of firms has to be embedded within a conceptual framework that allows for the application of evolutionary principles to the firm level. In order to have evolutionary properties, a firm has to be autonomous in its reproduction. This means it has to be self-reproducing. The traditional instrumental perspective of organisations does not allow for such an approach because individuals as the elements of an organisation do not reproduce themselves in the organisation. Neither, they are exclusively elements of one organisation. Hence, an application of evolutionary principles within the instrumental perspective is not possible. However, the application of evolutionary principles to organisations is possible when the latter are conceived as autopoietic systems as will be argued in the following. In a first step, basics in systems theory will provide a basis for the conceptualisation of firms as autopoietic social systems.

2.1 Theoretical basis of a social systems perspective

Systems theories provide a general framework for the observation of social evolutionary processes. **General systems theory** provides basic properties and mechanisms characterising natural systems, e.g. the basic design of production and regulation processes or the inherent tendency for growth. **Theories of living systems** already describe the transition of systems toward states of higher order and differentiation. Such organic forms are considered as the expression of processes of an ordered system of forces, constituting a process of *dynamic morphing* (von Bertalanffy 1950: 26-27). A living system is characterised by autopoietic reproduction. **The theory of autopoiesis** developed in cognitive biology marks the watershed in the integration of autopoietic principles in social systems theory because cognitive and emotional processes are the basis for social processes. The three levels of systems theory are outlined briefly in the following.

2.1.1 Firms as open systems: General systems theory

General systems theory is a kind of *meta-theory* that serves to integrate various theories from natural to social sciences. The *roots* were developed in the *natural sciences* by von Bertalanffy (1950), von Hayek (1945), and other chemists, physics, and biologists. General systems theory was enhanced by contributions from social sciences and established a common language and concepts to describe and observe different kinds of systems. While the general systems theory provides some common basis for all kinds of systems, several streams of this theoretical approach were adapted to more specific research areas.

Systems can be differentiated into closed and open systems. **Closed systems**, like machines, have no elements of self-organisation and exchange with their environment. In contrast, **open systems** like organisations are in a continuous exchange with their environment (Katz/Kahn 1978: 125-126). Katz/Kahn further define nine properties of open systems (Table 6-1): (1) Importation of energy, (2) Through-put, (3) output, (4) negative entropy, (5) information input and negative feedback, (6) steady state and dynamic homeostasis, (8) differentiation, (9) equifinality (Ibid. 20-25)

In contrast to physics (2nd law of thermodynamics), **biological and social evolution** is accompanied by **progressive structuration** such as that introduced by the division of labour in the history of human societies (Prigogine 1976: 94). The basic principle of the biological and social universe is increase of diversification, heterogeneity, and symbiotisation. '*What survives is not the strongest, but the most symbiotic*' (Maruyama 1976: 202).

Self-regulating, equilibrium-based, and thus *deviation-counteracting systems* were the object in the first phase of cybernetic thinking, termed **Cybernetics I** by Mayurama (1963). **Cybernetics II**, on the other hand, focuses on *circular processes*, which constitute *autonomous, self-referential units* with the capacity for *self-structuration* and *self-organisation* (Schulz 1993: 44). The difference between Cybernetics I and II is that the *deviation-counteracting system* has mutual *negative feedback* between the elements in it while the *deviation-amplifying system* has mutual *positive feedback* between the elements in it (Mayurama 1963: 166). Inherent in this perspective is the **principle of learning**, i.e. the increase in the adaptability and self-complexity of the system. Cybernetics II is focused on change, instability, and self-reinforcing processes as well as evolution and co-evolution (Schulz 1993: 26).

The properties of firms as open, evolving systems provide important hints to **general behavioural traits of firms**. For example, firms are characterised by an inherent drive towards growth and increasing complexity. This explains the traditional trend towards large, diversified firms. The growth principle exerts a strong influence on the evolution of a firm if not addressed consciously by decision-makers, e.g. in order to stress profitability or flexibility rather than size. On a macro-level, globalisation itself is a result of this inherent drive of social systems towards growth and increasing extension.

General systems theory also provides the basic **building blocks** in the constitution of systems. There is a basic production or transformation process, which provides the necessary resources in co-evolution with the environment. The internal organisation is based on equifinal and adaptable structures and regulatory processes based on information. Globally operating firms develop a maximum complexity with dispersed and differentiated subsystems, each characterised by its own production and regulatory processes and embedded in a co-evolution with both the integrating internal MNE context and the external local context. A globally operating firm thus is subject to fluctuations on multiple levels and depending on a resource exchange with multiple other systems in different local contexts.

2.1.2 Theory of living systems

The next step from the general systems theory to social organisations is the living systems theory. Living systems theory is a general systems theory of the organisation (Duncan 1972: 518). Living systems are open systems, maintaining themselves in exchange of materials with the environment, and in continuous building up and breaking down of their components. Such systems are never in true equilibrium, but in a **steady state**. In a steady state, an open system may attain a time-independent state where the system remains constant as a whole and in its phases, though there is a continuous flow of the component materials (von Bertalanffy 1950: 23). Contrary to closed systems, which are subject to the second law of thermodynamics (*'entropic*

death of systems), in organic development and evolution, a transition toward states of higher order and differentiation seems to occur (Ibid. 26). Organic forms are considered as the expression of processes of an ordered system of forces, constituting a process of '**dynamic morphing**' (Ibid. 27). A living system is characterised only as a network of processes of production of components that is continuously, and recursively, generated and realised as a concrete entity (unity) in the physical space, by the interaction of the same components that it produces as such a network (Maturana 1975: 313). A basic premise in the conceptualisation of living systems is the fact that '*all the distinctions that we handle, conceptually or concretely, are made by us as observers: everything said is said by an observer to another observer*' (Ibid. 315). It is principally a decision of the **observer** to choose the criteria for the definition of a system and its boundaries (zu Knyphausen 1988: 213).

The **internal logic of a system** cannot necessarily be observed externally. On the contrary, each observer creates the observations on the basis of his or her individual organisation of cognition (knowledge, experience, form of perception). The result is that everything said might indicate more about the observer than about the described object, which will be perceived and described differently by each observer. Perception and cognition varies more across biological species but even within social systems **strong differences** exist due to **cultural** and **individual differences**. Our cognitive system completes the image by means of memory. This explains the phenomenon that new things in a familiar milieu are often overlooked – which can have disastrous consequences (Roth 1980: 50). Living systems are historical systems and their **realities** are a **result of a historical process** (Hejl 1984: 68). Maturana (1975: 315) defines some **common properties of living systems** in order to make an objective discourse about them more probable:

- A '*unity*' is any entity (concrete or conceptual) separated from a background by a concrete conceptual operation of distinction. The '*unity*' of a globally operating firm is subject to centrifugal forces due to the high degree of global differentiation. Integration by network formation and identity building hence are central tasks in such firms.
- '*Space*' is the domain of all the possible relations and interaction of a collection of elements that the properties of these elements define. Globally operating firms occupy the maximum and globally differentiated space.
- '*Organisation*' refers to the relations between components, which define a system as a unity. Globally operating firms may be characterised both by allopoietic and autopoietic organisation. Global differentiation makes the co-evolution of subsystems critical in both the internal global and external local context critical.
- '*Structure*' refers to the actual components and to the actual relations, which these must satisfy in their participation in the constitution of a given unity. Globally operating firms may develop subsystems with very different structures and are capable to adapt to changing environments.

- A '*consensual domain*' is a domain of interlocked sequences of states, established and determined through ontogenetic interactions between structurally plastic state-determined systems (Ibid.). A consensual domain is a domain with overlapping behaviours resulting from the ontogenetic reciprocal coupling of systemic structures. Interaction and the interchange of elements between two distinct systems become possible after the establishment of such consensual domains (Maturana 1985: 256). Living systems are interacting systems, which construct consensual domains as socially accepted reality (Schmidt 1986: 34). Globally operating firms have to develop consensual domains both externally with systems in their global environment. And internally between and across their dispersed organisational units. These, in turn, have to develop consensual domains with their respective local and global environment.
- A '*domain of structural coupling*' has been established through the recurrent mutual structural selection of the participating organisms and reveals their present operationally congruent structures (Maturana 1980: 15). Structural coupling between organisms leads to the creation of isomorphic structures and of a consensual space (Fischer 1991: 78). Globally operating firms have to develop structural coupling on the activity level in the same way as they have to do it develop consensual domains on the meaning level. Both are necessary to establish and maintain the co-evolutionary interplay between systems and their environment (including other systems and subsystems).

In terms of living systems, firms develop idiosyncratic properties in structural terms. They develop an identity and an individual form of organisation, which manifests itself in changing structural arrangements. Behaviour and structure of a firm is recursively linked to other systems in its social environment. Consensual domains and structural coupling allow for the co-evolution of these systems. In the **global context**, the organisation, structure, consensual domains, and structural couplings are subject to cultural and contextual differences that call for the differentiation of internal structures and the development of integration mechanisms.

2.1.3 Theory of autopoietic systems

With the concept of autopoietic systems entered the element of evolution into systems theory. Autopoietic systems are capable of self-reference, self-organisation, and self-reproduction. Autopoiesis is a term of Greek derivation and means self (*auto*) production (*poiesis*; *poein*) (von Krogh/Roos 1995: 33). Maturana (1975: 317-318) defines '**autopoietic systems**' as follows:

'There is a class of mechanical systems in which each member of the class is a dynamic system defined as a unity by relations that constitute it as a network of processes of production of components which: a) recursively participate through their interactions in the generation and realisation of the network of processes of production of components which produced them; and (b) constitute this network of

processes of production of components as a unity in the space in which they (the components) exist by realizing its boundaries. Such systems I call autopoietic systems: the organization of an autopoietic system is the autopoietic organisation.'

The evolution of autopoietic systems exposes the following characteristics:

- The result of the establishment of the *dynamic structural correspondence* between an autopoietic unity and its medium, or *structural coupling*, is the effective correspondence of changes of state of the unity with the recurrent changes of state of the medium while the unity remains autopoietic (Ibid. 320).
- A *fragmentation of the autopoietic unity* (self-division or self-reproduction) produces at least two new autopoietic unities that have identical or different structures (Ibid. 323).
- Two plastic systems become *structurally coupled* as a result of sequential interaction when their respective structures undergo sequential changes without loss of identity (Ibid. 326).
- *Evolution* can be conceived as the reproduction of circular organisation with changes in each stage of reproduction (Maturana 1985: 37).

Contrary to autopoietic systems, in 'allopoietic' systems, the organisation itself does not produce the elements and processes constituting it as a unity (Maturana 1985: 177). **Allopoiesis** is defined as a *production of something else than itself*. In management theory, it resembles the traditional *perspective of purposive, rational planning and implementation*, including the construction of formal hierarchical organisation, in which lower levels are designed and controlled. Informal and emergent properties from this view are excluded or invisible. Allopoietic systems are undoubtedly the precursors of autopoiesis in social systems – '*allopoiesis is the framework, a condition, within which autopoiesis can take place*' (Zeleny 1981: 95-96). Autopoiesis and allopoiesis are *complementary* rather than exclusive characterisations for a system (Varela 1981: 39).

A basic principle of social systems is that each social system is embedded in a wider social system in a recursive way while all are autopoietic. Social systems are hence characterised by the '**principle of recursiveness**'. A social system and its subsystems all have the *same basic structural properties*. Therefore, they are also characterised by the '**principle of self-similarity**' (Malik 1984: 104). *All subsystems* therefore are '*wholes*' with boundaries and all characteristics of a social system. For example, within an organisation, all *organisational units* have defining boundaries, a formal and an informal structure, an identity, thus leading to comparable, **self-similar principles of organisation**. Within such a *layered or multi-level structure*, allopoietic organisation has to define arenas for self-organisation (zu Knyphausen 1988: 309). Adapted to firms this would mean that units at hierarchically lower levels are purposively structured and given orders by higher levels while maintaining their self-organisation within defined limits and residual spaces. Such a conscious **context**

management proved to be particularly valuable in international management (Bartlett/Ghoshal 1987). The task of management is to stimulate the growth of a network of decision processes, systems, programs, and rules, that is to say, an organisation, which may be considered effective in attaining institutional objectives. One basic objective is to develop the *autonomous dynamic unity of the organisation* (i.e. an autopoietic operation). The network of decision processes must produce components capable of recursively generating the same network through their interactions. In this sense, a manager is the catalyst rather than the designer of an organisation (Zeleny/Pierre 1976: 161).

Individuals are the nodes between several social systems (Maturana 1985: 178). A cognitive or social system can create *consensual linguistic fields* and *self-consciousness* by orientational interaction with similar systems and with itself (Ibid. 71). The fact is that **information** does not exist independent of a **context of organisation** that generates a cognitive domain, from which an observer community can describe certain elements as informational and symbolic (Varela 1981: 45). **Globally operating firms** thus have to cope with **multiple diverse consensual domains** on different geographical and business-oriented levels. As observers know and create their environment through interactions with it (Uribe 1981: 51), such firms have to develop their consensual domains in an **evolutionary interplay** with their respective **local and business environments** while maintaining an overlapping consensual domain vis-à-vis their **global environment** as a whole.

2.1.4 The dual character of social systems

Despite the conceptual problems in the adaptation of the theory of autopoietic systems to social systems, Jantsch (1986: 161) contends that '*genetic, epigenetic, social, and socio-cultural evolution appear to be connected by homologous, and not only analogous principles – principles which in different variations and on different levels of evolution are of the same type as they all stem from the same origin.*' In a similar vein, Malik (1993: 101) contends that genetic, epigenetic, social, and socio-cultural evolution are linked through homologous principles and expose an astonishing coherence in form of circular logics of trial-and-error processes. According to Malik (1993: 99) it is important to note that '*...it was not human reason that produced social institutions in order to pursue certain objectives but rather that human reason emerged as a consequence of the evolution of social institutions.*'

A conception of social systems as constituted by individuals as elements would allow for an allopoietic perspective. It may hence provide a **teleological approach** to the evolution of systems. This is an important contribution as intended influences on the reproduction of a social system from outside the system's boundaries always have allopoietic connotations. Due to the *principle of recursiveness and self-similarity*, this also applies to influences from other *subsystems* within the same system, e.g. the

influence of headquarters on subsidiaries in MNEs. Both headquarters and subsidiaries are organisational units and as such constitute themselves a social system in the **nested hierarchy of social systems**.

In contrast to the allopoietic approach, which still assumes individuals to be the elements of social systems, the **adaptation of the concept of autopoiesis to social evolution** appears to be conceptually possible by an adaptation of the mechanism of the *reproduction of components*. **Social acts** as communication, legal acts etc, may be *components of self-referential*, but not of autopoietic systems: they do not exist independent from the existence of acting individuals and in physical-biological sense communicative acts do not produce new communicative acts themselves but trigger them in individuals. A social system may only be regarded as being *autopoietic* by an **ontological change** of the system level. This implies (1) a complete exclusion of acting and communicating individuals from the concept of social system, and (2) a conceptualisation of social acts (communications, actions) as the only components of the social system. It is thus possible to develop an ontology of systems, in which the states adopted by the components of an allopoietic system become the components of an *ontologically higher system*, which may be regarded as a *social system of a second level or order* (Roth 1986: 212). A **primary social system** in terms of a population - e.g. a society, or tribe – may be conceived as an autopoietic system *constituted by individuals* as their elements. Organisations are primary social systems that are allopoietic as individuals do not ‘reproduce’ themselves. *Functional social systems* and *organisations*, however, are autopoietic systems of a *second level*, or **secondary social systems**, as they are *constituted by social acts* as their elements. The individuals constituting a social system by their social acts do not enter the system as elements. Rather, they may be conceived as stakeholders and primary resources, which provide all necessary tangible and intangible resources by communication and action.

The elements of the autopoietic social system are all communications and actions on its behalf and from its perspective - not the constituting individuals.

Members of a social system constitute a **primary, allopoietic social system**, which serves as the basis for the formation of a **secondary, autopoietic social system**. The latter is constituted by social acts on its behalf and from its perspective, which may consequently also be provided by individuals that are no formal members of the primary system. As individuals are not exclusive elements of one social system, they can contribute to the autopoietic reproduction of various secondary social systems by providing them with actions and communications belonging to their path-dependent reproduction. On balance, **social systems** are both **autopoietic** in their underlying meaning-based reproduction and **allopoietic**, as they depend on the intentions of the individual stakeholders. Social systems emerge on the basis of consensual domains formed and implemented by the founding individuals. They grow as other individuals

or social actors increasingly contribute to their reproduction internally, or externally as exchange partners.

2.2 Properties of firms as allopoietic systems

The view of **organisations** as allopoietic social systems is the *traditional view of purposeful, instrumental, and goal-directed systems constituted by individuals*. It has traditionally been dominating organisation and management theory. With the exception of ecological organisation theories and institutionalisation theory, the perspective is basically voluntaristic and functional. The focus has traditionally been on formal organisation. Elements of organisation are formal roles and organisational units. The function of the organisation is to attain the formulated purpose and specific goals by means of specialisation and co-ordination of organisational processes, roles, and units.

From the allopoietic perspective, **teleological processes** of planning and decision-making drive evolution. All properties of organisations, which may not be observed by this formal and instrumental perspective, basically become a residual in the shadow of this lens. For example, Tichy (1981: 225) noted that *'the prescribed organization structure provides the pegs upon which the emergent networks hang'*, thus putting all organisational properties, which are not formally intended and prescribed into the *'informal'* drawer. This *'unknown organisational world'* may be *'contained'* or even integrated by *'context management'* but remains a black box - theoretically and in managerial practice. **'Emergent'** strategies may *'occur'* and shadow options may exist but are not part of the standard repertoire in management. Informal organisation hence often remains a residual task for the human resource management as most efforts to explain it have been made by concepts of motivation, incentives, and social cohesion. Organisational aspects themselves are basically *'out of sight'* of the allopoietic perspective, as – even by definition – it cannot explain organisation from within and by its own logic.

On the other hand, the allopoietic perspective provides directly **applicable knowledge** for those who have an **instrumental stake in organisations**. It provides insights about how goal attainment, instrumental and intentional behaviour as well as efficient organisational structures and processes may be designed and implemented. This literature comprises both **organisation theory** (e.g. contingency theory) and **management literature**, particularly on organisation structure and design. Systems theory has been applied explicitly only in form of the cybernetic concepts, which focus on control and regulation based on negative feedback loops.

While the designs of **formal organisation structure** and processes **traditionally** have been the main targets of **organisation research**, the focus is increasingly on **dynamic meaning-related organisation** as reflected by the knowledge-based view.

Routines, capabilities, best practices, and core competencies have become main concepts in theoretical and instrumental organisation literature. Particularly in the global context such a reorientation may be very inspiring as it directs more attention to underlying differences and basic levers in the organisation of dispersed organisational units. For example, Egelhoff (1993: 204-205) contends that a key function of formal MNC structure is that managers across the company know where specific sources of knowledge and capability lie. As long as the locations tend to be fairly stable, managers are generally familiar with how to access them. With **increasing dynamics in transnational structures**, *formal structure* begins to lose its value as an accurate and stable directory of where knowledge and capability reside and how they can be accessed. A **shift** in the focus from **formal regulations** to a **dynamic knowledge perspective** thus provides more flexibility also for the instrumental, allopoietic perspective of organisation in the global context.

2.3 Properties of firms as autopoietic systems

Autopoietic systems are capable to reproduce themselves. In this view, firms are not only instruments to achieve the goals of the stakeholders but they take a life on their own (Selznick 1947). An evolutionary perspective of social systems can only be based on an autopoietic view as it allows conceiving firms as autonomous systems reproducing themselves. Of course, a conceptualisation of firms as autopoietic social systems presupposes a definition of respective properties. The most important difference between allopoietic and autopoietic social system level is that the latter is constituted by meaning and social acts rather than by individuals as their elements.

2.3.1 Meaning as the basis of social systems

While **psychic systems** are constituted on the basis of a unified (self-referential) *nexus of conscious states*, **social systems** are constituted on the basis of a unified (self-referential) *nexus of communications*. The **co-evolution of both** has led to the common evolutionary achievement of **meaning**, employed by psychic as well as social systems. Both kinds of systems are ordered according to it, and for both it is binding as the indispensable, undeniable form of their complexity and self-reference (Luhmann 1995: 59). Meaning extracts differences to enable a **difference-based processing of information** (Ibid. 63). **The processing of meaning** follows the principles of ‘**distinction**’ and ‘**indication**’ (Spencer-Brown 1972: 3). The mechanism for the construction and description of a form (an object) is therefore: ‘*Draw a distinction!*’ (Ibid.) While doing this in a plane is quite simple (a line drawn between two objects may be sufficient), social systems expose a high degree of complexity so that the introduction of central guiding differences is critical to co-ordination of decision-makers and of globally dispersed activities. **Globally operating firms** have to identify the most important **guiding differences** in their heterogeneous context in order to augment their evolutionary capability. Intercultural comparisons may be difficult because **cultures** diverge in the **semantics** of the very

first proceeding of this compulsion to self-change (Luhmann 1995: 64). This causes serious implications for globally operating firms. The **meaning-based structure of social systems** does not only *differ* with regard to *content* but also in the *process of selective reproduction*. Selection mechanisms and criteria may be different between cultural contexts and respective social systems.

Differences in meaning structures do not only exist between cultures. *Meaning* is always *system-specific*. Only shared meaning allows for interaction and communication between systems. Meaning may be incorporated in worldviews, values, norms, roles, etc. It is produced and negotiated in ongoing interactions (Willke 1994a: 175). Meanings are open, have no ultimate origin or ultimate truth. '*Meanings are bounded by socio-cultural limits*' (Dachler/Hosking 1995: 9). For example, '*efficient*' management structures and practices differ in many important respects because business environments do so as well (Whitley 1992: 122). The socially constructed nature of firms and markets implies that they are meaningful entities whose nature and operations vary according to differences in meaning systems and dominant rationalities. Thus, '*rules of the game*' '*business recipes*', and economic rationalities may vary considerably between countries (Ibid. 122, 125). No set of rules can ever be self-contained and complete. Every act of human understanding is essentially based on unarticulated background of what is taken for granted. It is when we lack a common background that misunderstandings arise, in which case we are forced to articulate the background, and explain it to ourselves and to others (Tsoukas 1996: 16). A recipe, e.g. an industry recipe (Spender 1989), consists of a set of background distinctions tied to a particular field of experience. It is learned within the context of discursive practices (Tsoukas 1996: 20-21).

The world of social systems is brought forth in language. For example, Eskimos have some thirty words for different kinds of snow because their world is, to a large extent, made up of snow (von Krogh/Reos 1995: 95). The language we use influences how we experience our world and thus how we know our world. Organisational languaging presupposes socialised organisational knowledge and gives rise to distinctions that form an integral part of the concept of organisation. The organisation has no substance except for being a self-similar, autopoietic system of knowledge and distinctions. '*It demands of its members to continue to language about it on all scales in order for it to survive, or in other words, continue its autopoiesis*' (Ibid. 98). Particular usage of words tend to be specific to national cultures, to regional sub-groups within a nation, as well as to organisations and are embedded in specific contexts of meaning. The same applies to professions. For instance, everybody participating in a medical operation knows the meaning when the surgeon shouts '*scalpel*'. Therefore, the **interpretation** even of individual words is based on *highly contextual knowledge* and might vary between *different contexts*. Socialised organisational knowledge allows for less to be said than what is known (Ibid. 119).

In international management, a basic precondition is to develop differentiated discursive practices that allow for **global discourse across all units**. Specialised discursive practices on a *geographical level* (e.g. local subsidiaries and networks) and on a *professional level* (communities of practice) should complement the system-wide discourse. **Globally operating firms** have to provide for *nested consensual domains* and *common evolutionary motors across the dispersed units* including a framework that allows for a *co-evolution of subsidiaries and local environments*. **Meaning** provides **stability** in the form of organisational memory, structures, and routines but is also subject to a continuous process of new meaning generation. The variety of the internal and external context of globally operating firms provides a high self-complexity and rich source for the generation of new meaning. In management literature this is a central aspect in innovation and knowledge-based approaches.

Meaning may be conceptualised quite differently dependent on the **theoretical perspective**. *Evolutionary economics* concentrate on routines and technologies. *Social evolutionary theories* observe social traits and culture, Campbell (1960) even stresses knowledge and learning. *Population ecologists* focus on ‘comps’ as an equivalent to genes in biological evolutions. Institutional theories illuminate economic regulations (institutional economics), sense (interpretative view), and institutions (institutionalisation theory), respectively. In management theory, meaning has always played a role in form of information, technology, patents, and others. An explicit and consistent approach to explore the meaning level of firms is being developed in the *knowledge-based view of management*. Due to the underlying instrumental management perspective, meaning is observed basically in terms of rational meaning, though tacit knowledge may represent a bridge to interpretational or emotional levels of meaning. The knowledge-based view developed a rich vocabulary and conceptual pool, which may provide the raw material for an increasingly consistent approach to the meaning level in organisations, particularly in firms. In general, the concept of meaning allows for the use and transfer of knowledge across different disciplines and theoretical perspectives.

2.3.2 Evolutionary mechanism of social systems

In terms of Waddington (1976: 11), ‘*man’s development of language as a means of communicating information and instructions ... provided him with an enormously powerful mechanism of evolution*’. **Social evolution** is much faster than biological evolution as it is based on the processing of meaning. Even in the global context the unit acts of this process increasingly proceed on a zero-time basis due to information and communication technologies. The basic **evolutionary mechanism of social systems** is the operation of meaning on the basis of guiding differences. **Guiding differences** are distinctions that steer the possibilities of processing information. For example, these guiding differences can acquire the property of a dominating paradigm

if they organise a supertheory in such a way that in practice all information processing proceeds according to them. For example, Darwin channelled the supertheory evolution into the difference between variation and selection (Luhmann 1995: 4).

While most economic and management theories are instrumental and focused on normative issues in order to provide managers with means to pursue their goals, evolutionary theories explain mechanisms of change. They are open-ended and not directed towards the achievement of defined goals. The latter only applies to the teleological mechanism. The processing of meaning on the basis of distinctions, i.e. opposites, drives social evolution. In **formal (static) logic**, **contradiction** has the connotation of *falsity*. That is, a contradiction proposes that something is both the case and not the case at the same time and is, therefore, logically impossible because '*tertium non datur*' (Hatch 1997: 321). From a **temporal perspective**, however, the dialectic tension between two opposites provides the evolutionary motor that instils social systems with dynamics. Guiding differences are central *sources of variation* and *selective retention* as they provide the basis for the recursive interaction between meaning processing and action. For example, business organisations may be driven by the temporal needs for more expansion (e.g. diversification), then (as a consequence) for more consolidation and selective focusing (e.g. concentration on core competencies). **Firms** hence are floating between the extreme points of guiding differences, which are constitutive for their evolution. In the **global context**, a critical task of firms thus is to define and to actualise the **guiding differences** that are most important for their economic and reproductive success. These guiding differences provide the **basis for perception, interpretation, and decision-making**. They direct the attention and preferences of decision-makers and are decisive for the pattern of self-organisation.

The processing of meaning, actions, and decisions by guiding differences constitutes the autopoietic evolutionary motor of social systems. Globally operating firms have to develop the requisite self-complexity and resonance capacity to facilitate the autopoietic reproduction across dispersed units in a globally differentiated and nested hierarchy of social systems.

Globally operating firms are subject to internal and external pressures for **local adaptation and global integration**. This paradox must not be neglected but appear as a **dominating guiding difference**, which has to be *balanced dynamically*. The more a firm understands and manages the dominant paradoxes underlying its business, the higher is its self-complexity and evolutionary capability.

2.3.3 Complexity of social systems

A **major task** in globalisation processes is the creation and reproduction of **organised complexity across the globally differentiated units** produced by internationalisation

activities. In effect, complexity means being forced to select; being forced to select means contingency; and contingency means risk. Each complex state of affairs is based on a selection of relations among its elements, which it uses to constitute and maintain itself. The focus in business organisations with globally dispersed units therefore is on the **relational structure among these units**, or, in other terms, the internal network of relations among the units and the external network of relations with the organised environment.

Clearly, systems lack the **requisite variety** that would enable them to react to every state of the environment, that is to say, to establish an environment exactly suited to the system. There is *no point-for-point correspondence* between *system* and *environment* (such a condition would even abolish the difference between system and environment). The system's inferiority in complexity must be counter-balanced by **strategies of selection** (Luhmann 1995: 25). Particularly the differentiated *global context* provides an immense complexity. Firms have to develop the capacity for the dynamic selection and design of their networks of relations or, in terms of systems theory, their '*Eigenkomplexität*' (**'self-complexity'**).

Resulting from the historical accumulation of system states like knowledge and experience, self-complexity is the capability of a system not only to reduce the unlimited environmental complexity, but also to transform it into a specific order by using rules, which depend on the conditions of reproduction and co-ordination provided by the existing self-complexity (Willke 1994: 103). The accompanying '*Resonanzfähigkeit*' (**'resonance capacity'**) is the capability of a social system to equilibrate, respond, and absorb external perturbations and to act with regard to them. In the knowledge-based view of strategic management, a similar concept was developed in the knowledge-based view of strategic management and termed '*absorptive capacity*' (Cohen/Levinthal 1990).

Social systems are characterised by the principles of '**recursiveness**' and '**self-similarity**'. A social system and its subsystems are self-similar and linked in a recursive interplay (Malik 1984: 104). All subsystems are '*wholes*' with boundaries and all characteristics of a social system linked by self-similar principles of organisation. In this layered structure, **allopoietic organisation** has to define **arenas for self-organisation** in the form of **context management**, which proved to be particularly valuable in international management (Bartlett/Ghoshal 1987). The explanatory value of self-organisation and autonomy is particularly high in international business because of the differences in environmental conditions. **Self-similarity reduces structural complexity**, and makes transparency, communication, and substitutability of elements easier. Self-similar and recursive structures may also facilitate information processing (e.g. data structures, algorithms) and knowledge management (e.g. knowledge integration and distribution). Self-similar structures may

be designed on the basis of subsidiaries or other types of organisational units (Schiemenz 1994: 304).

In firms, no matter where it is or how small it is, when the scale for observation is changed, (e.g., when studying learning processes at individual, group, or SBU level), new processes are revealed, each resembling the overall process. They are always similar but never identical (von Krogh/Roos 1995: 82). For example, MNEs pursuing a '*multinational*' strategy are characterised by a *duplication of activities across countries* and local autonomy. Subsidiaries are given equal treatment and develop similar activities along the whole value chain. Despite local differences, these subsidiaries will exhibit a great similarity. **Decision-making in organisations**, including rational choice models, bureaucratic models and political models of decision making, can also be said to be *self-similar* as it can be applied to all organisational levels (Ibid. 82). How an individual autopoietically produces new knowledge (new distinctions) is similar to the way a SBU produces knowledge, which in turn, is similar to the way an organisation produces knowledge. This may even be extended to inter-organisational and societal levels. At various levels of scales of observations, the individual, group, or organisation are autonomous, simultaneously open and closed, self-referential, and observing systems. In general, **globalisation** leads to an increase in the complexity of decision-making (Schiemenz 1994: 286). The design of self-similar structures is a main instrument to reduce global complexity.

2.3.4 Interpenetration of system and environment

A particularly neglected research area in strategic and international management is the **dynamic coupling of organisational actors** and the interaction between individual level understanding and organisational action (Lyles/Schwenk 1997: 52). From a knowledge-based perspective, *complex organisations* are conceived as '*repositories of knowledge*' and exist as communities in which varieties of functional expertise can be communicated and combined by a common language and organising principles. A *firm's functional expertise* is nested within a higher-order set of recipes that act as *organising principles*. A firm's knowledge may also consist of the information of other actors in a network, as well as the procedures by which resources are gained and transactions and co-operation are conducted (Kogut/Zander 1992: 384). *Such a view* is pragmatically appealing but lacks *theoretical foundation*, as the ontological status of a '*firm*' remains unclear. A '*repository*' cannot dispose of *evolutionary capabilities*. It may only be subject to transformation on the basis of rational choice from '*outside*'. Thus, viewing firms as repositories of knowledge, who will decide as no individuals or organisational actors are included as elements?

In the social systems view, however, '*interpenetration*' provides the *basis for structural coupling, consensual domains, and the co-evolution of psychic and social systems*. Interpenetration is an intersystem relation between systems that are

environment for each other. While **penetration** exists when a system makes its own complexity available for constructing another system, **interpenetration** exists when this occurs *reciprocally*, that is, when both systems enable each other by introducing their own complexity into each other (Luhmann 1995: 213).

Interpenetration may emerge (1) externally *between distinct systems* (e.g. organisations), (2) internally *between distinct parts of a system* (e.g. organisational units), and (3) *between systems of different ontological levels* (psychic and social systems). Psychic systems (individual actors) constitute social systems on the basis of meaning. **The interpenetration of psychic and social systems is based on meaning.** Psychic systems supply social systems with adequate disorder and vice versa. The construction of social systems follows the principle of '*order from noise*'. Social systems come into being on the basis of the noise that psychic systems create in their attempts to communicate (Luhmann 1995: 214). Actions are simultaneously the actions of human beings and the possible building blocks of social systems (Ibid. 215). From this perspective, human beings constitute the environment of social systems. Psychic systems – or cognitive systems (in terms of Maturana) – are subsystems of human beings and belong to the environment of social systems (Ibid. 255). Psychic systems are autopoietic systems based on consciousness, not on life (Ibid. 262). Psychic systems and social systems come into being in the course of co-evolution (Ibid. 271). The relationship of human beings to social system is one of interpenetration (Ibid. 240). Only those **stocks of meaning** in the consciousness of individuals that '*belong*' to a social system are **parts** of it. The same applies to communications and actions by the individuals on behalf of the system.

☞ **The relation between individuals and social systems**

From the autopoietic perspective and akin to management approaches, **individuals** (e.g. employees) are **not elements** of the organisation but may be regarded as resources, providing labour to conduct necessary activities, and to process meaning in terms of innovation, planning, decision-making, and control. Individuals act as stakeholders, catalysts, and means for the foundation and maintenance of autopoietic social systems. They contribute to the reproduction of autopoietic social systems but are not part of them. This enables individuals to participate in the reproduction of various different social systems without becoming extinct when any one system '*dies*'. Only what an individual '*invests*' in terms of acting (working) and meaning processing (planning, thinking, ideas, desires, expectations, etc.) on behalf of the system becomes part of it. All other aspects of an individual's life remain outside of the system but will certainly be recursively influenced by it. On the other hand, individuals do not only receive **direct incentives** from the social system but also **valuable meaning** and **access to relations**. As argued in the case of born globals, founders invest the meaning (knowledge, experiences, intuition) and the relationships generated in their professional history as founding capital in the new venture. As

DiMaggio/Powell (1983) contend, the building blocks for the formation of social systems have become virtually littered in the social space. Founders of born globals appear to have collected enough such building blocks on global scale to set-up new ventures viable in this context.

Individuals also take **boundary-spanning roles**, facilitating the interpenetration of social system, their structural coupling, and the development of consensual domains between them. They provide the autopoietic system with the capability to import information and other necessary resources, and to export its products in exchange. From the institutionalisation perspective, individuals act as '**isomorphic ventilators**', instilling the social system with meaning from the social environment and communicating meaning generated by the system to their social environment. Individuals are the generators and transmission belts for the recursive interplay of meaning and action. The autopoietic system thus depends on the *organisation* of this recursive interplay but not on the concrete *structure* at any given point in time (Maturana 1985).

As the firm or other organisation provides the means to achieve the goals of social actors, it attracts them to participate. Due to double contingency and interdependencies with exchange partners, the probability of structural coupling with other social actors rises as more individuals put their stakes and resources into the organisation. Individual motivations of stakeholders and double contingency with other social actors constitute the inherent tendency for growth, which is typical for living systems. In the **global context**, individuals in terms of psychic systems are socialised quite differently and intercultural differences may demand more efforts in the development of shared meaning and activity structures. Both more conscious efforts and learning-by-doing may become necessary to bridge cultural and contextual differences by developing globally nested consensual domains between and across dispersed organisational units.

2.3.5 Recursive interplay of action and meaning structure

A social system is constituted as an action system, but must presuppose the communicative context of action. Both action and communication are necessary, and both must constantly co-operate in order to enable reproduction out of the elements of reproduction. Reproduction means only production out of what has been produced; for autopoietic systems this means that the system does not end through its actual activity, but goes on. This going on depends on the fact that actions (whether intentionally or not) have communicative value. Communication and action are

The evolution of a social system is driven by the recursive interplay of its activity structure and its meaning structure. Actions and communications are the unit acts in this process.

The **autopoietic organisation** of a social system is constituted by the **recursive interplay between meaning and action level**. The basic social acts are communication and action - both on the basis of a path-dependent structure, which reflects the underlying organisation. A social system is constituted as an action system, but must presuppose the communicative and meaning-based context of action. Communication and action are recursively related and the elements of the autopoietic system (Luhmann 1995: 169). Through communication, organised action can occur despite differences of interpretation among organisational members. Communication enables members to create equifinal meaning, from which organised action can follow (Donnellon et al. 1986: 43).

Communication or processing of meaning in general recursively drive the **reproduction** of the underlying **meaning structure**, which is first imprinted by the **founding stakeholders** and then begins its **autopoietic reproduction**. The same applies to the **action level**, where actions recursively drive the autopoietic reproduction of the activity structure. The elements of an autopoietic social system hence are meaning and social acts – not individuals. The **autopoietic system** is dependent on the interpenetration and **structural coupling with individuals** who provide their contribution in form of necessary **resources** - including the capacity of meaning processing and activity conduct - and who in turn receive the expected incentives by the autopoietic system. As long as the social system '*finds*' individuals (stakeholders) who participate in this interplay, the autopoietic system will survive. The system may even change its purpose, its technology, or products as long as it maintains its reproduction, i.e. its autopoietic organisation.

Giddens assumes that *social actors sustain meaning in communicative acts*. But settings are also 'regionalised' in ways that heavily influence, and are influenced by, the serial character of encounters. **Regionalisation** here is best understood not as a wholly spatial concept but as one expressing the **clustering of contexts in time-space** (Giddens 1984: 365). All social interaction is situated in space and time (Ibid. 86). In addition, meaning inherently forces itself to change. One must be careful about **intercultural comparisons** because cultures diverge in the **semantics** of the very first proceeding of this compulsion to **self-change** (Luhmann 1995: 64). This causes serious implication for globally operating firms. The meaning-based structure of social systems does not only differ with regard to content but also to the process of selective reproduction. **Selection mechanisms** and criteria may be different between **cultural contexts** and respective **social systems**. Globally operating firms have to provide for a common **evolutionary motor** across the dispersed units and a framework on meaning and action level that allows for a **co-evolution of subsidiaries** with both the **MNE network** and **local environments**.

2.4 Change and reproduction of global social systems

The **structure of elements and relations** in social systems is **basically stable** over a certain period of time. A given **organisational structure** restricts the amount of possible choices and relations among elements and behaviours and consists of a **structure of expectations** regulating legitimated behaviour (Luhmann 1995: 283). Expectations are the autopoietic requirement for the reproduction of actions. There are no other structural possibilities for social systems because social systems temporalise their elements as action-events. **Expectations** translate meaning into intended action and its implementation. **Decisions** legitimate expectations and make them explicit. An action therefore is always oriented by expectations. **Routinisation** and **institutionalisation** can reduce the need for decision-making as expected actions are stabilised. Routine and institutionalised actions thus lose the character of a decision (Ibid. 293- 295). They reflect **organised complexity** and reduce the amount necessary decisions but may also become rigid and dysfunctional.

In **globally differentiated systems**, the complexity and dynamics would call for routines and institutionalised action in order to reduce the complexity of decision-making. However, as local contexts and expectations may differ profoundly, such standardisation may be difficult to achieve. One basic solution is the minimisation of interdependencies by decentralisation; another is the development of **consensual domains between and across globally differentiated units**. The latter allows for a **commensurability of expectations across the units**, providing a **joint orientation** towards intended actions and transformations. As a minimum condition, the units have to develop equifinal meaning (e.g. expectations) by communication, which allows for directed organised action - even though there are diverging interests, motives, and interpretations.

As structures of social systems, expectations acquire social relevance and suitability only if they can be anticipated. Only in this way can double contingency be ordered. **Expectations** must become **reflexive across the subunits** involved. The anticipation of expectations induces all participants to take up orientations that reciprocally overlap in time and are, in this sense structural. This prevents social systems from being formed as mere chains of reactions (Luhmann 1995: 303, 305). A basic condition in globally operating firms is the development of interculturally suitable communication and meaning structures, which may provide the necessary transparency and direction.

The **historical law** governing the structural development of action systems is the **increase of functional differentiation** (Ibid. 349). A theory of evolution then focuses on the formulation of causes and effects of the differentiation of evolutionary mechanisms. When the mechanisms are differentiated more sharply, structural change becomes more probable and the social system increases its speed of transformation

(Ibid. 152). **Intentional changes** are always embedded in an evolutionary process, which assimilates and 'deforms' them. Choice and planning are components of the evolution of social systems but a planning system has to be capable to observe itself in the system's evolution (Luhmann 2000: 185, 353). Given that uncertainty rather than certainty is continuously characterising the situation of an organisation, **evolutionary rationality** in planning is reflected in an **organisation's robustness** rather than in the efficiency of optimisation (Luhmann 1988: 122). From a systems perspective, it would be reasonable and a precondition of robustness to design an organisation in a way that allows it to grow and shrink within a certain range (Luhmann 2000: 310). This argument also supports the position that internationalisation processes involve both increases and decreases in the geographic and cultural extension of a firm. **Management in complex global systems** therefore includes the *increase in the global requisite variety*, in the *capability of organisational resonance in globally differentiated environments*, and the *respective processing of contingencies* in terms of the behavioural potential of the system (Müller 1996: 73). A process of global differentiation and integration drives the development of these organisational properties and capabilities.

2.4.1 Differentiation and integration

Historically, the first move on the way from a mechanistic general systems theory to a theory of social systems is the replacement of the traditional **difference between whole and part** by that between **system and environment**. This transformation (von Bertalanffy 1950) enables to interrelate the theory of the organism, thermodynamics, and evolutionary theory, constituting the theory of system differentiation (Luhmann 1995: 6). System differentiation is the repetition of the difference between system and environment. Through it, the whole system uses itself as environment in forming its own subsystems (Ibid. 7). The **functional differentiation** of social systems increases the pace in the evolution of social action in societies substantially (Kieser 1989: 178). In terms of population ecology, it produces **new niches** in which **new organisational forms** may emerge and develop. From an evolutionary perspective, differentiation facilitates the structural implementation of the mechanisms of variation. It facilitates systemic change through the **division of subsystems** so that not each change in a subsystem induces adaptation in other subsystems as well (Luhmann 1975: 62). In economic terms, differentiation and subsequent integration of social relations in the differentiated systems constitutes **functional specialisation**. The evolutionary process of differentiation and integration therefore creates variation (innovation) and more efficiency in the functional systems. For example, the global market economy based on the generalised medium 'money' provides much more variety and efficiency than ancient forms of economic organisation. The same applies to the organisations working within the economic subsystem.

Differentiation and integration, i.e. the **evolutionary motor** of social systems, is constituted by the continuous, **recursive interaction** between their two constituting levels of **meaning and action**. In the course of its evolution, the interpretation of perceptions of a system determines its activities. The activities of a system, in turn, determine the interpretations of its perceptions. Such a circular explanation is necessary and valid because it infuses a system with its dynamic (von Foerster 1985: 47).

After the **founding process** of a new social system, the **process of differentiation and integration** sets in *internally* and with regard to the *coupling with the environment*. Internally, the social system differentiates new subsystems (e.g. organisational units), which are themselves social systems due to the principle of self-similarity. The social system unfolds an internal nested hierarchy of social systems. The **self-similarity** of these **(sub-)systems** allows for consistent communication, action, and organising principles. In the **process of globalisation**, the social system encounters perturbations, as individuals belonging to other national or cultural systems – living and socialised in a different cultural context - constitute new differentiated subsystems.

Activity and meaning structures and even **modes of meaning processing** are different and represent a serious obstacle to the integration of **globally differentiated subsystems** in the evolutionary path of the overall system. **Consensual domains** have to be developed both between individual subsystems (e.g. two subsidiaries) and on system level (e.g. MNE). The system has to develop meaning structures and processes, which facilitate the **generation and diffusion of meaning across all subsystems**, at least in those areas that are vital for the system as a whole.

Globalisation is characterised by the expansion of social systems and the development of network relations on global scale. Globalisation thus provides a fertile context for the increasing formation, expansion, and linking of social systems in a recursive, self-fuelling process. The **principle of differentiation and integration** leads to **complementary processes of globalisation** on organisation level, here exemplified by the difference of global vs. local:

☞ It may be argued that **global systems** like MNEs differentiate subsystems (e.g. subsidiaries), which adapt to local conditions and act as bridges to build consensual domains and structural couplings with systems in the local environment. The **MNE** thus may gain access to local resources and options to export the systems' products. The MNE differentiates own subunits but also develops external interdependencies on global scale, further increasing the probability of system formation and differentiation. In order to maintain their steady state and autopoietic reproduction, MNEs commit substantial resources to the integration of their subsystems. With

increasing internal differentiation and external interdependencies, the complexity of relations increases. Besides the mere quantity of relations, it is the variety of environments and the resulting differentiation of internal subsystems, external interdependencies and consensual domains, which produces the immense complexity of MNEs. These have to develop the requisite variety in form of organised complexity in order to maintain their identity and their autopoiesis. This induces the import and integration of organised complexity in the form of meaning. MNEs must dispose of a variety of knowledge of the diverse social spaces in which they act and must develop the capacity to integrate this knowledge in the internal process of meaning generation and reproduction. The generation and diffusion of knowledge at both system level (global) and subsystem level (e.g. local) becomes a critical capability of MNEs in order to maintain the evolutionary interplay between meaning and action levels across all subsystems.

☞ Contrary to MNEs, many **local organisations**, such as **SMEs**, do not dispose of globally dispersed resources and interdependencies. Such local firms have not reached the global level by internal differentiation and integration and thus these two subprocesses of social evolution still await geographic extension. Local firms may follow the course of internationalisation by internal differentiation, i.e. FDI, or by the establishment of interdependencies with other, globally dispersed organisations. In the first case, integration is primarily focused on internal relations. In the second case, the harmonisation of globally differentiated consensual domains becomes a main task in order to maintain a symbiotic co-evolution with the now geographically and culturally differentiated environment. Though circular in a recursive perspective, differentiation precedes and even induces integration in a sequential perspective. Internationalisation efforts of SMEs therefore often concentrate on the entrepreneurial side, i.e. differentiation, and neglect the integrative aspect of globalisation.

☞ Complementary to the single firm or *intraorganisational globalisation perspective*, which distinguishes *global firms* (MNEs) and *local firms* (majority of SMEs), the local vs. global difference may also be applied to **interorganisational networks**. As shown in Chapter 4, there are strong competitive advantages of both local and global networks. **Local networks** provide advantages of flexible specialisation, innovative milieus, cultural homogeneity, and social capital from local embeddedness. As in the case of MNEs, **global interorganisational networks** provide substantial advantages from global variety, global co-specialisation, and co-ordination. Contrary to MNEs, they dispose of more flexibility and possibilities of niche specialisation by individual firms. While global interorganisational networks certainly dispose of a higher variety and a higher capacity to exploit location advantages and to leverage competitive advantages, their integration is very difficult and may impede more complex forms of activities. *Local networks*, on the other hand, are much easier to co-ordinate due to their local embeddedness but do not dispose of the global diversity of their global

counterparts. Increasingly, local networks seem to develop relations with global networks, and vice versa. **Globalisation** thus induces the **formation of multi-layered networks from the local to the global level**.

The described global differentiation and integration of MNEs, the internationalisation of MNEs, and the emergence of multi-layered networks on global scale induce the **'liquefaction of global competition'**, which sets the standards for the global evolution of firms in the context of economic globalisation.

2.4.2 Evolutionary motors

The **basic principle of evolution** is not teleological, towards some however defined higher perfection. Rather, the basic principle is **'to get out of the way'**. In biology, this means to get out of the way of competitors, predators, and other environmental threats. In societies, social systems encounter such restriction in terms of other social systems, i.e. organisations, and legitimacy. The irony with the process of globalisation is that the globalisation itself strictly limits the possibility to get out of the way. **Globalisation causes a 'domestication' of the global arena**. While *'discoveries'* and geographic expansion in ancient times basically reflected a spatial extension of a social system, they now lead to changes within the **increasingly dense fabric of global networks**. In addition to the principle to get out of the way in order to find a stable supply with resources and to pursue the basic function and goals of the system, social systems have also been described as being designed for the pursuit of individual goals of the stakeholders. As such, they are also instruments and subject to allopoietic reproduction. There are basically four **mechanisms of change** in social systems identified by organisation theory (van de Ven/Poole 1995). In addition, the mechanism of meaning processing by guiding differences by social system may be regarded as a fifth mechanism. All the five mechanisms provide the **dynamics** that drive the **principle of differentiation and integration in social evolution**.

☞ Life cycle mechanisms

Life cycle mechanisms are the **most common holistic explanation** of transformation in the **management literature**. The typical progression of change events in a life-cycle model is a unitary sequence, which is cumulative and conjunctive. A singular discrete entity exists that undergoes change yet maintains its identity throughout the process. The entity passes through stages distinguishable in form or function. A program, routine, rule, or code exists in nature, social institutions, or logic that determines the stages of development and governs progression through the stages. The **logic of life cycle models** is appealing as social systems have a *'birth'* in terms of foundation, growth, and often, even death. An important restriction is the missing consistency of what happens between birth and death. There are no consistent overarching principles or phases applying to all organisations or other social systems. On the contrary, population ecology showed that contrary to biology, the probability

of death in the case of organisations decreases with increasing age. The same applies to transformation processes. A study by Singh et al (1986: 606) suggests that organisational changes made earlier in the life cycle are more likely to influence the hazard of death. The life cycle has been explicitly chosen by Vernon (1966) as the motor for change in his **international product life cycle model**. Life cycle mechanisms are also underlying all other stage models of internationalisation, though in combination with other mechanisms.

☞ Teleological mechanisms

Teleological mechanisms drive the development of an organisational entity toward a **goal** or an **end state**. The organisational entity is purposeful and adaptive; by itself or in interaction with others, the entity constructs an envisioned end state, takes action to reach it, and monitors the progress. Such a mechanism perfectly fits in the case of organisations as rational, purposive, and goal-directed social systems. Consequently, the teleological mechanisms dominate the management perspective due to their instrumental value. The **purpose of an organisation** is first defined by the **founders** and imprinted at foundation. Later, the respective stakeholders continuously renegotiate the purpose and the specific goals dependent on their power positions. Strategic contingency theory, exchange theory, and resource dependence theory provide a great variety of arguments in this regard. The **basic means** of social teleological mechanisms are **decision-making processes**. Decision-making is not only necessary to make expectations explicit in order to implement the intended activities. In addition, negated possibilities may determine the system more than pursued possibilities because they cannot be corrected or adapted by learning. They influence the '**structural drift**' of the system much more than the accepted possibilities, which can be modified by further decisions. Consequently, it may be a reasonable maxim to decide in a way that decisions extend the decisional space and autonomy of the system (Luhmann 2000: 199). Structures in organisations have the function of premises for decisions and hierarchies are thus priori decisions on how decisions shall be made (Luhmann 1971: 69). Decision-making has received extensive attention in literature on international business with regard to strategy-making under the perspective '**centralisation vs. decentralisation**' (Garland/Farmer 1986, Ronen 1986) and particularly in the Process School of international business, which put the decision-making context – particularly between MNE headquarters and subsidiaries - at the centre of the transnational model.

☞ Dialectical mechanisms

Dialectical mechanisms develop in systems, which are subject to **contradictory** or **colliding forces**. Historically, such mechanisms have particularly been identified in contexts of **political and power struggle**, e.g. in historical materialism (work vs. capital). In the operation of dialectical mechanisms, initially opposing **thesis** and **antithesis** are fused by a **synthesis**, which becomes a stable compromise for a period

of time and can become the new and challenged thesis as the dialectical process continues. **Change** and **stability** thus co-exist in **dialectical synthesis**. The dialectical view particularly applies to the context of globalisation and particularly to MNEs, which already internalised the basic dialectic of local adaptation vs. global integration.

☞ Evolutionary mechanisms

The evolutionary motor causes **cumulative changes** in social systems. Change proceeds through a continuous cycle of variation, selection, and retention. In contrast to **Darwinian** evolution where traits are inherited through intergenerational processes, the **Lamarckian** concept argues that traits are acquired within a generation through learning and imitation. A Lamarckian view thus appears to be more reasonable in the case of social evolution. In contrast to blind Darwinian evolution in biology, active selection by human agents occurs at all stages of the process of social evolution. Evolution in social systems is constituted by evolution of knowledge (Loasby 1999, Boulding 1981, Veblen 1899). The VSR mechanism is consequently the first mechanisms used to explain evolutionary dynamics by the knowledge-based view.

☞ Autopoietic mechanisms

A fifth motor not included by van de Ven/Poole is the autopoietic motor of meaning processing by guiding differences in social systems. The evolutionary mechanism of social systems is the **recursive reproduction of meaning and action** on the basis of ‘*guiding differences*’ (Luhmann 1995: 4). Such guiding differences allow for the organisation of meaning by building dynamic relations. For example, as shown by Ghoshal (1987), the distinction of global integration vs. local adaptation may be applied to organise knowledge from the industry level, to firms, and even to individual activities. A basic task in the evolution of an organisation is to identify the most critical guiding differences for their successful reproduction. The evolution of the organisational meaning structure and consensual domains across units and with external partners thus may be facilitated. The **guiding differences** provide the basis for perception, interpretation, and decision-making. They direct the attention and preferences of decision-makers and are decisive for the pattern of self-organisation. In the process of globalisation, a system has to develop the requisite organised complexity by integration of guiding differences, which allow for a viable perception and meaning processing in the globally differentiated context. Generally, more than one motor comes into play because the organisational context of development and change extends over space and time in any specific case. There may also be some degree of nesting, timing/sequencing, and complementarity of motors.

2.5 Co-evolution of social systems and their environment

The **basic condition** for the **co-evolution of social systems** is their capability to communicate, to interact, and to understand and interpret the communication and

actions of each other. When these conditions are given and interaction is taking place, this is called interpenetration. **Interpenetration** exists when two systems enable each other by introducing their own complexity into each other (Luhmann 1995: 213). Social systems do this by means of **meaningful communication and action**. As argued above, individuals act as catalysts and channels for the flow of such social acts. **Interpenetration** provides the basis for **structural coupling, consensual domains**, and the **co-evolution of systems**. Meaning enables psychic and social system formations to interpenetrate, while protecting their autopoiesis (Ibid. 232).

Interpenetration of social systems from **different cultural environments** is much more difficult than within a homogeneous context. *First*, the basic means of communication, language, is different. Communication may be simply impossible, but even qualified personnel may not perceive minute connotations of communications formulated in the language of the foreign partner. *Second*, different cultures have different preferences, norms, interpretations, habits, and even different modes of meaning reproduction. The interchange of meaning, ranging from simple information to the transfer of best practice or technology thus represents a major obstacle to international or even global interaction. Particularly more dynamic and complex forms of interchange like innovation processes may be very difficult between culturally different systems.

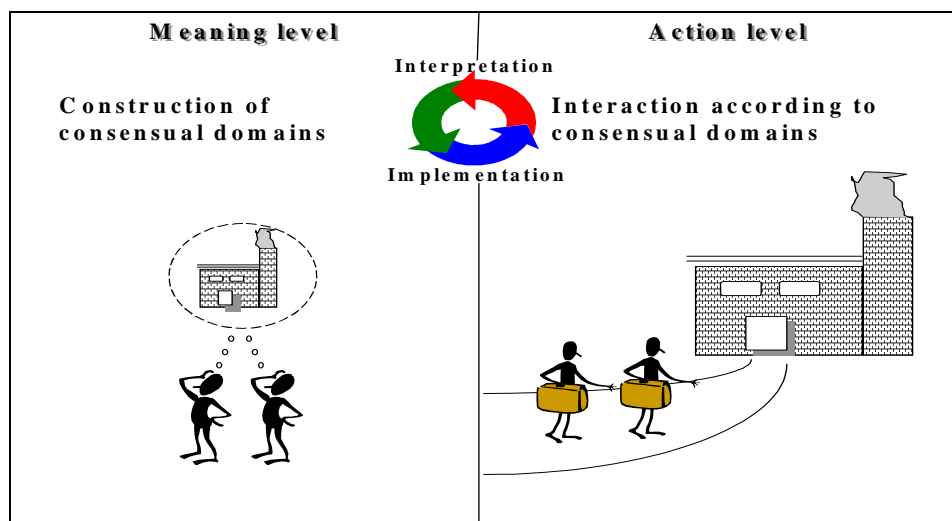


Figure 1: Construction of consensual domains

The **co-evolution of social systems** thus presupposes a **parallelisation of structural elements and acts** in their reproduction. A set of temporalised expectations, intentions, and actions must be identical in their references to system and environment, for an even flow of time is required to compensate for the lack of certainty and stability. The increasing differentiation of social systems and the resulting dynamics in the globalisation process may lead to **asymmetrical ageing** in

the co-evolution of structurally coupled organisations and even of their subunits. Structural elements and relations become temporally more differentiated. Their dynamic integration may be facilitated by **intentional ‘mutual ageing’** (Schütz 1932: 111), which becomes a key to successful co-specialisation and co-operation.

As the basic structural means for the co-evolution of social systems, the **construction of consensual domains** can be viewed as the **central demand** resulting from **globalisation processes** (Figures 1, 2). New organisational units or co-operation partners have to be integrated into the ongoing structures and operations, so that the construction of a shared reality may be the fundament for successful interaction. New operations have to be negotiated and therefore to be constructed into the open space of options. Globally dispersed activities lead to an increasing necessity of consensual domain construction and integration. Local subsidiaries have to develop their consensual domains and structural couplings in their local context and thus they may be the source of innovative processes for the whole network. The co-operation with local partners can also lead to the construction of innovative products, practices, etc..

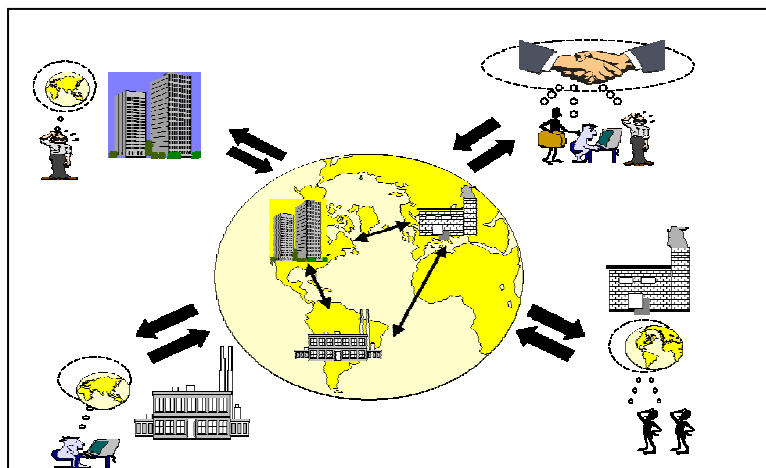


Figure 2: Integration of local and global consensual domains

On the other hand, **standardised knowledge** in form of best practices, standardised processes, and products or structural arrangements have to be conveyed to new units and partners to guarantee efficiency and continuation as well as a boundary-spanning fit with existing structures and processes. The development of **transparency** in the **own structures and operations** is therefore a very important step to develop the ability to communicate and construct new realities with partners, co-operation partners as well as other internal organisational units. Particularly the **variety of consensual domains on the global scale** can be viewed as the **central challenge** to the **management of globalisation**. It can be the source of conflicts and misunderstanding as well as a source of new ideas and innovations and thus exerts a fundamental impact on the evolution of a company.

As **globally differentiated subsystems** are constituted primarily by **local individuals**, they are instilled with **meaning** generated in the **local context**. A large variety of meaning and interpretations is thus imported into the local subsidiary due to the interpenetration of social and psychic systems. Local subsidiaries are rich sources of new meaning and interpretation. At the same time, **individuals from the local context** have to be instilled with system- or **firm-specific meaning**. This includes the transfer of knowledge and organisational culture. **Individuals** are the linking pins between the local environment and the subsidiary and are the **means of local interpenetration** and the development of **local consensual domains**. In addition, they act as linking pins between the local sub-system (subsidiary) and the network of globally dispersed subsystems generating and reproducing the respective interpenetrations and consensual areas. Individuals in subsystems thus have to develop a **'Janus-faced' role**, which allows for a dynamic balancing of the two perspectives. Once again, the principle of evolution by the processing of guiding differences becomes apparent. Individuals may be trained and sensitised to focus on such central guiding differences in order to allow for a common orientation on a heterarchic rather than hierarchical basis. Such general capabilities of system members provide the fundament for the more specific globalisation capabilities.

Conclusions

The adaptation of social systems theory to the globalisation process of firms allows for a different perspective on this phenomenon. The conceptualisation of firms as social systems based on communications and actions could lead to a new kind of research. Boundaries of the firm have to be redrawn. Central for the study of globalisation then becomes the extension and intensity of global communication and action on behalf of the firm rather than the focus on staff and assets. For example, who is doing more for a firm such as Coca Cola at a given time: the manager at headquarters in Atlanta thinking about his next holidays or the small boy on the street wearing a Coca Cola t-shirt that hundreds can see? New forms of communication such as Internet communities or blogs get a totally new weight from such a perspective and allow for new forms of empirical research.

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