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MANAGING CHANGES INTO INTERNATIONAL MARKETS. FLEXIBLE STRUCTURES AND KNOWLEDGE SHARING FOR FIRM COMPETITIVENESS

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Abstract

This paper focuses on the analysis of organizational flexibility as one of the most important prerequisites to implement business strategies, particularly at international level. Turbulent and endless changes into international environments, high competition, innovation technology development, and consumer shifting towards new needs and behaviors lead companies in finding appropriate strategies to remain competitive. This implies to look continuously for better solutions to structure organizations, manage people, and improve knowledge. Flexible structures allow not only to faster adapt to ever-changing business needs, but also to facilitate information exchange and – when required – modify working procedures and people behaviors. However, any process of organizational change is onerous and finds obstacles to be implemented. Change requires top managers and subordinates involvement, in terms of their comprehension and acceptance of business choices; in this way, they can concretely support innovation. The role of infra-firm communication is here crucial since it represents the vehicle through which change can occur and people can acquire, create and diffuse knowledge. This is the base for developing new strategies and making the firm grows. However, the effort for modifying organizational assets is an endless process. Market forces as well as economic, political and social variations obligate companies to change and readjust their internal resources in order to remain competitive or even to survive.

Keywords: international environment; organizational flexibility; change management; infra-organization communication; knowledge improvement.

1. Introduction

This article focuses on the analysis of organizational structures supporting international strategies by giving companies the ability to respond faster and effectively to environmental challenges.

Unpredictable and ceaseless changes into international environments, higher competition infra and inter-sectors, innovation technology development, and consumer shifting towards new

needs and behaviors force companies in finding appropriate strategies to maintaining their competitiveness. This implies to look constantly for better solutions to define appropriate structures, in order to manage people, exploit efficiently and effectively tangible and intangible resources and improve business knowledge (Hagel, 2010; Hill, 2011).

In this context, traditional configurations (like divisional and matrix structures) seem no longer suitable to respond adequately to today challenges. Therefore, companies search for flexible structures, which are more similar to networks than to hierarchical configurations (Halal, 1994). These forms are more appropriate to manage uncertainty, instability and variability of the environment in which firms operate (Lawrence & Lorsch, 1967). Moreover, organizational flexibility is required not only to adapt faster to ever-changing business needs, but also to facilitate information exchange and – when required – modify working procedures and people behaviors. Therefore, organizational flexibility and communication are interdependent: on one hand, flexibility sustains communication process because interactions can occur without the limitations arising from hierarchy and bureaucracy; on the other hand, communication represents an important prerequisite to increase organizational flexibility and make business changes successful.

Several scholars agree that flexible structures can help organizations in a significant way to gain and maintain their competitive advantage especially at international level, since they improve interactions among people within headquarter and subsidiaries (Halal, 1994; Ashkenas *et al.*, 1995). Moreover, flexibility does not support only infra-firm relationships but also inter-firm relationships. Particularly, we referred to those ones arising from agreements and alliances that a firm develops with other organizations, belonging to both the same supply chain and to other industries and sectors (Hamel, 1991; Grant, 1996).

However, the basic dilemma of organizational design remains unchanged. Companies are constantly oriented to finding the appropriate way to group people, processes, and units in relations to their strategic goals and specific competitive environments. It is not easy to planning and implementing change though and, even if firms “need” to do it, they have to deal with several resistances to change (Ulrich & Lake, 1990).

In this regard, one important factor influencing change success is the involvement of all employees (both top managers and subordinates), in terms of their comprehension and compliance about *the need to change*. It is clear that infra-firm communication plays a strategic role. It becomes the tool through which people can acquire and diffuse knowledge, and, in this way, be able to activate and support change (Nonaka & Takeuchi, 1995). It is known that knowledge is the fundamental base for improving organizational culture, developing new strategies and making the firm grows (Cohen & Levinthal, 1990; Senge, 1990; Paniccia & Valeri, 2010).

This paper comes from the idea to provide the reader with an in-deep analysis of the issues introduced above in order to explain some important implications related to strategy-structure relationships. These ones affect the way and degree in which companies carry out change, without disregarding the fact that any modification entails costs from an economic, organizational and administrative point of view. This work does not demand to be exhaustive, since there are other important factors to analyze in-depth. Moreover, it would be meaningful to verify empirically how organizational flexibility and knowledge sharing can truly support business strategies. Thus, this paper is a preliminary analysis, aimed at debating some important management issues, trying to give an explanation on their interdependences and show the difficulties faced by companies in dealing with the today international business environment.

2. The challenge to face international business environment

In today competitive environment, going international represents a necessary condition for most companies to grow and, sometimes, even to survive. Foreign environments provide firms of tangible and intangible resources useful to catch business opportunities and develop new strategic paths; at the same time, internationalization can be the vehicle through which a firm acquires new knowledge, for example, by cooperating with other companies worldwide. However, it is not easy to operate at global level, especially if we consider the remarkable changes that have characterized international environments in the last decades, which force firms to implement strategic adjustments in order to adapt quickly to new competitive conditions (Hill, 2011; Brondoni, 2014), as illustrated below.

Firstly, international trade has significantly improved due to the less restrictions developed by local governments, thus allowing firms to move products and services more efficiently across borders and providing customers with an easier access to a variety of goods and services at competitive prices. Secondly, countries continuously develop new infrastructures, norms, and economic and financial policies to create favorable conditions for foreign investments, which represent one of the most important prerequisite for economic and social development in today world. Thirdly, the rapid progress in communication and innovation technology, which have enabled not only people to interact faster and easier, but also firms to produce, place and promote their products and services worldwide more efficiently in terms of time and space. This is consistent with another factor related to delocalization and outsourcing implemented by firms. These strategies have dramatically modified structure and form of operations within industries, since resources are searched at global level in order to achieve cost reductions and new market opportunities; this has increased the degree of competition worldwide not only in final markets but also in upstream activities of supply chains. Finally, the remarkable changes in consumer behavior, where customers are more aware about their needs and continuously search for new products and services to satisfy them, thus pushing firms to introduce innovations aimed at catch as many customers as possible and, as a result, increase their market share.

All the factors listed above are consistent with the definition of globalization given Govindarajan (2000, p. 275) according to which globalization is a “growing economic interdependence among countries as reflected in increasing cross-border flows of three types of commodities: goods and services, capital, and knowhow”. Globalization is mainly a closer integration of the countries and peoples all around the world, which involves both the reduction of costs of transportation and communication and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders.

We cannot disregard that globalization multiplies both opportunities and threats for companies. In fact, firms have to face, on one hand, the homogenization of consumer behaviors and needs as well as the convergence of technology and products, and, on the other hand, the increasing markets' differentiation, which requires specific marketing strategies to respond effectively to local customers, which may be different from an economic, social and cultural point of view (Gupta, 2011). This is consistent to the *glocal* approach that takes in consideration both the need to globalize activities as well as products/services and the need to differentiate them to adapt to local environments (Bartlett & Ghoshal, 1988). Therefore, it is quite difficult to approach international markets in an undifferentiated way. Rather, a global approach to markets can eventually be appropriate in case of *different cross-country segments*, which present homogeneous characteristics among them in terms of customer needs and, thus, marketing strategies (Ghemawat, 2003).

Thus, companies have to manage the trade-off between worldwide and nation/region-wide perspective, in relation to both their strategic needs and changes in competitive environment.

This implies that successful interactions with international markets depend also on the degree of “sensitivity” and interest expressed by a firm while approaching to different countries.

What stated above concerns mainly big companies, which have already reached a high degree of internationalization and are familiar to foreign countries. The situation can be significantly different for small enterprises, which most of the times do not own those resources required to approach to international markets. However, we cannot disregard that several small firms have developed successful strategies to sell their products worldwide, thanks not only to the ability of entrepreneurs and managers, but also to the type of products they sell (Cafferata, 2009). This is the case, for example, of Italian small firms operating in the agri-food sector and fashion industry. Most of these enterprises are able to commercialize their goods worldwide through a wide network of buyers and retailers that make those products available to customers in different countries. In this regard, the fact that they are *Made in Italy* products often facilitate promotion and distribution since customers know and appreciate their quality, design and image (Bertoli & Resciniti, 2012).

Really, the level of internationalization can affect the way a firm approach to international markets. In this regard, literature states that there are three main orientations in international management: 1) domestic market orientation; 2) multi-domestic market orientation, and 3) global market orientation. These orientations follow an increasing path in terms of growth and degree of involvement in international activities – from casual exporting to global marketing – and they are related to the EPRG Framework (Ethnocentric, Polycentric, Regiocentric and Geocentric orientation), which varies according to degree of internationalization and willing to achieve international strategies (Perlmutter, 1969). Moreover, regardless of the type of entry strategy adopted by a company and its degree of internationalization, it is relevant to take in consideration the fact that operating at international level requires a high ability to manage relationships worldwide. This regards not only relationships between the firm and its foreign stakeholders (like local governments, competitors, trade unions, and customers) but also relationships with other companies through partnerships and various forms of cooperation (Brondoni, 2014; Grant & Baden-Fuller, 2004). At the same time, we cannot ignore the relations generating among managers within the company, which can come as well from different countries and cultures (Schuler & Jackson, 2014).

Generally, interactions at international level are useful to increase the firm organizational learning, especially in the case of alliances and networks able to generate growth and innovation. This can be achieved when each enterprise – participating to one or more international partnerships – can improve its skills by benefiting from the synergies generated by *the whole pool of knowledge* (Kraatz, 1998). In fact, internationalization strategy can take place through different forms of cooperation with other enterprises worldwide, therefore acquiring resources and skills, which a firm can hardly develop autonomously (Hamel, 1991). Thus, international alliances become the way through which a firm can grow, without enlarging its structure or investing directly in foreign countries.

In these terms, it is misleading to see the company as a single economic entity, which carries on its strategies with a more or less global orientation; rather, a company has to be analyzed as *a part of international clusters* and its internationalization can sometimes take place just because it belongs to those boundaryless networks (Nadler & Tushman, 1999). Thus, we can assume that *the ability and degree of internationalization depend also on the type and intensity of relationships that a company is able to implement and manage at international level*.

When we talk about international relationships, it is not possible to ignore that globalization lead companies to deal also with *ethical issues*. In the present complex environment where changes are unpredictable and quickly, it is necessary to establish not only more control in

business activities and procedures but also more attention to behaviors and ethical conducts in terms of social responsibility and sustainability (Caselli, 2003; Brondoni, 2010). For this reason, there is an increasing interest by scholars as well as by policy makers in business ethics: companies should follow responsible behaviors not only toward the external environments (i.e. all stakeholders) but also to their internal *milieu* (i.e. people working in the organization), in order to respond to current and ever-changing business needs (Zucchella, 2007; Schuler & Jackson 2014). In fact, the economic paths occurred in the last decades influenced social behaviors and people attitude to needs and life-styles, generating economic and social anomalies that undermined ethical principles and develop a more heightened individualism.

For this reason, the global community (governments, international organization, policy makers, scholars and individuals) focus the attention to defining guidelines inspiring business conducts towards responsible actions suitable to generate sustainable development. This is consistent to the definition of *sustainability* that was formalized by the World Commission on Environment and Development (*Brundtland Commission*) in 1987. The report defines sustainable development as «development which meets the needs of current generations without compromising the ability of future generations to meet their own needs». At this point, the role of companies is crucial, since their actions influence not only the economic and competitive dynamics, but also the social and natural contexts where they operate. Therefore, achieving sustainability implies to be able to combining economic growth with social development and environmental resources safeguard. In this regard, we mention the three pillars of sustainable development that should inspire entrepreneurial and managerial actions; at the same time, they can be also guidelines for every human behavior and the entire global society.

- Economic effectiveness: it is related to an organization “well-acting”, which implies to pursue company mission, obtain adequate economic returns, and generate wealth for local communities. In other words, to remain effective and efficient in the long term.
- Social effectiveness: it concerns the ability of maintaining fair relationships not only with employees but also with all other stakeholders, primarily the local actors sited where the company is rooted, respecting their culture, needs and expectations.
- Environmental effectiveness: it is associated to the respect of natural heritage, which implies to employ resources rationally and avoid damages in order to maintain the environmental natural equilibrium.

By following the three pillars listed above, any firm should create a specific “corporate code of ethics” during its growth, so defining guidelines for any business activity in relation to the type of goals to achieve. However, interaction with different contexts and relationships with other organizations lead companies to face continuously new ethical issues, so that it is sometimes difficult to reconcile their own “ethical standards” with those of other organizations and, even more, located in other countries. In fact, we cannot neglect that business ethics is influenced by cultural variables, like values, religion, customs, etc., which can vary significantly among countries (Zucchella, 2007). The major difficulty regards the fact that it is not possible to define a “global business ethics” acknowledged and shared worldwide, since ethical principles not only vary from one society to another, but also within the same context from both time and space point of view. For this reason, today the global community is strongly committed to defining new standards for implementing sustainability through profound sharing of ethical principles and common codes of conducts.

In conclusion, there is no doubt that competing at international level demands a huge effort to firms, because of the environmental complexity due to unpredictable and significant changes in economic and social assets. Certainly, flexibility in organizing business resources and

developing a “culture of change” can help companies in facing competitive challenges worldwide.

3. Flexible structures for improving knowledge

In each historical era, market forces demand new organizational forms as managers seek new ways of arranging assets and resources to produce the goods and services that customers want and expect (Meyer, Tsui & Hinings, 1993). According to literature, hierarchical functional structures dominated the Industrial Age because they were suitable to its relatively stable and predictable external business environment, but the explosion of environmental turbulence has dramatically altered the situation. Divisional structures, on the contrary, has been designed for disturbed and unpredictable markets, and seemed to be better suited to support diversification and improve internal coordination needs than to rapid advance into new markets and fast adjustments in relation to the environmental changes. Finally, the matrix structure has been the response to highly unpredictable markets, and allowed to focus on both stable and emerging markets segments and clients.

Companies find that those traditional, institutionalized organizational designs no longer enable them to remain competitive since they are too slow in responding to the heterogeneous, fast-changing business environment, defined as “hyper turbulent environment” (Mohrman, Galbraith & Lawler, 1998). In fact, today environment is challenging due to its “degree of volatility”, which depends at least on three important factors:

- a) *uncertainty* provoked by unpredictable changes in customers’ behavior, new technologies in production systems, retailers’ competitiveness, and financial capitals shifts worldwide;
- b) *heterogeneity* related not only to products and services, but also to distribution channels, ways to compete and resources to exploit;
- c) *volatility* concerning prices, innovation technology, regulatory restrictions, and shortage of raw materials.

Another significant feature characterizing today environment is the *velocity* through which changes take place. This pushes companies to modify their strategies and quickly adapt to new competitive conditions, and, at the same time, find the organizational architectures suitable to support strategic choices. Therefore, traditional hierarchical structures have evolved to forms more fluid, which are appropriate to follow strategic imperatives (Nohria & Ghoshal, 1991). This requires the ability to design organizational configurations that are flexible enough to allow the firm to managing effectively uncertainty in a broader context of discontinuous change. Nadler & Tushman (1999, p. 49) emphasize this concept and state that while “Historically, the purpose of organizational structures was to institutionalize stability; in the organization of the future, the goal of design will be to institutionalize change.”

It is clear that strategy and structure are strictly interconnected. Particularly, strategy drives organizational design that means that the need to reorganize is triggered by a strategic shift driven by new technologies or market changes (Chandler, 1977). At the same time, we cannot disregard that organizational design affects strategy since structure defines hierarchy and gives those formal rules to organize, coordinate, and manage people and the other resources within the company.

Since flexible configurations are able to respond to business needs more effectively than traditional structures, most companies organize their activities through departments, divisions and functions, which behave as if they are autonomous “enterprises” (Halal, 1994; Ashkenas *et al.*, 1995). Of course, this kind of organization needs to be supported by new entrepreneurial forms of management, where empowerment, initiative and control make infra-firm

relationships more fluid and faster. In these terms, firm's configuration is no longer a hierarchical structure operating through vertical top-down communication. Rather, it is a network of units interconnected and interacting through systems of "lateral communication". An example of organizational design with these characteristics is the cellular form (Miles *et al.*, 1997), where each cell has to reorganize processes and strategies in order to make its expected contribution to the overall company.

The flexibility related to governance abilities as well as to technical and managerial skills contribute to strip away that part of bureaucracy that might limit flexibility. In these terms, "the organization is no longer a pyramid of power but a web of changing business relationships held together by clusters of internal enterprises" (Halal, 1994, p. 75). In other words, organizations become a process rather than a structure; they tend to behave as "organic systems", operating more through circular interactions and interconnections (both at infra and inter-firm level) among parts than through linear chains of cause-effect.

These organizational changes are consistent to flexibility and specialization in operation systems, related the current post-Fordism era, which characterizes the modern production systems: together with standardization and mass-production typical of Fordism systems, flexibility is required today to deal with products and customers differentiation.

These organizational features can improve the company's learning process by facilitating information diffusion and innovation. In fact, developing learning process is related to the organization's ability to look at continuous improvements to guarantee flexibility and efficiency of the entire organizational system. Companies able to give up traditional approaches are more capable to deal with the impact of environmental changes and adapt to new conditions. In this regard, we agree with the statement according to which "A culture with a positive orientation to knowledge is one that highly values learning on and off job and one in which experience, expertise, and rapid innovation supersede hierarchy" (Davenport, Long & Beers, 1998, p. 52).

Therefore, the attitude of firms to innovate is strictly related to their ability to unlearn. In this way, companies can create and improve new organizational behaviors, suitable to cope with the evolution of environmental contexts where they operate. Inter-organizational relationships can improve this ability, since firms experiment new ways to cooperate not only with upstream and downstream partners but also with enterprises operating in different sectors (Hamel, 1991; Kraatz, 1998).

In particular, relationships among firms backward and forward along the supply chain (from raw materials, to parts and components production, to manufacture and assembly, to distribution and final sale) can generate networks through different forms of outsourcing and "insourcing". In this way, relationships within the supply chain can become so tight that it becomes sometimes difficult to determine where one organization ends and the other begins. In this regard, Meyer, Tsui & Hinings (1993, p. 1178) highlight that "the parts of a social entity take their meaning from the whole and cannot be understood in isolation. Order emerges from the interaction of those parts as a whole."

What stated above becomes more relevant if inter-firm relationships develop worldwide, involving companies – coming from different countries and sometimes operating in different sectors – that share resources and competences. In this way, the interaction creates a concrete opportunity to acquire new knowledge and improve *transnational learning*, arising from the mix of different resources and competences combined within the network (Hamel, 1991; Ghemawat, 2003). Generally, this situation occurs in multinational companies, where the ever-expanding transnational linkages consist of different companies, subsidiaries, suppliers, and individuals and they result in relational networks (Brondoni, 2014). However, also small and medium firms find advantageous to participate in international networks. In fact, becoming part of a network can represent an important source of competitiveness for small enterprises, which

can exploit knowledge and experience from the partners belonging to the same international network.

4. The challenge of implementing organizational change

Although companies shift today towards structures more flexible, any advantage of such change can be gained only by tolerating an increase in disorder. In fact, organizational changes may determine modifications not only in the structure (departments, offices, hierarchical levels, etc.) but also in managers and employees' behavior, in relation to their roles, positions and degree of freedom in decision-making process (Morrison & Milliken, 2000).

Even if change demands that managers and employees unlearn old habits and assumptions, which reinforce hierarchy and inhibit empowerment, it is challenging to realize radical changes. Generally, companies adjust their organization through process of gradual modifications over the traditional structure, aimed at managing more effectively the trade-off between control and freedom. In fact, organizational freedom may carry out creative energy, but this energy can turn destructive if not guided into useful paths. Conversely, hierarchies may avoid this disorder, but they inhibit creative freedom. Flexible structures are aimed at overcoming this dilemma: they do not represent *laissez-faire* systems, but "guided" systems, where people involvement, empowerment and roles are regulated in base of formal rules, which in any case are not compromised by a rigid authoritarian hierarchy (Halal, 1994).

In any case, managing change for implementing new organizational assets encounters several obstacles inside the firm.

Firstly, there are *structural inertia* referred to the heaviness of "administrative machine" that may slow down the entire process (Kotter, 1996). Secondly, as stated by Simon (1991), the *bounded rationality* of people can compromise change because it is almost impossible to evaluate completely advantages and disadvantages of strategic choices and, particularly, all their related consequences in the business system. Finally, *personal resistances* that regard the propensity of people to conserve roles, positions and power (Morrison & Milliken, 2000); such tendency prevents companies from organizational change since any modification is often negatively affected by past procedures, obsolete attitudes and limited perceptions. In this regard, *business corporate culture* plays an ambivalent role: on one hand, it can be an important source of innovation and development; on the other hand, it can provoke conservatory behaviors, since it is source of company identity and social cohesion.

For all those reasons, successful companies use to recruit people (particularly top managers) which welcome and are able to manage change. They are supposed to own the ability to create an inspiring vision, which all members of the organization can comprehend and trust, as well as leadership skills in managing and institutionalizing change (Kotter, 1996; Begley & Boyd, 2003). These personal features are more crucial when the company operates in economic sectors characterized by unexpected changes due, for example, to innovation technology. In this case, difficulties in predicting variations, high degree of instability and turbulent environment require high flexibility to respond to environmental changes and – when possible – even to forestall market modifications in order to reduce the lead-time of competitive responses. From this point of view, the prudent executive will have to combine different degrees of hierarchical control and organizational freedom to find that solution, which best suits the firm strategic needs.

It is clear that any organizational change is a challenging process and requires a specific managerial mindset, which regards ability to envision, motivate people in improving their entrepreneurial and self-organizing attitude, and communicate the need to carry on changes in order to make organization more performing (Begley & Boyd, 2003). In other words, leaders learn when it is best to encourage autonomy and differentiation, and how to create value through

the selective use of linking structures and integrative processes. This means that organizations seek “congruence” at the enterprise level and manage differences at the same time, in perceiving internal architectural divergence as a powerful source of evolutionary strength.

Together with the factors listed above, there are circumstances outside the firm, related to environmental conditions, which can influence organizational change in a significant way. We can mention the following ones:

- need to develop products and services suitable to satisfy global customers, who are more aware and careful than in the past about preferences selection, quality evaluation and business image;
- political and social contexts, which influence mode and degree of firm involvement with governments, local administrations and associations as well as with competitors, distributors and customers;
- international trade modifications in terms of norms, laws and barriers, which can vary significantly from one country to another, making promotion and selling of products more difficult to be achieved;
- difficulties in managing changes within the own sector, where competition increases continuously due also to the “contaminations” of other firms belonging to different industries; this happens for example between consumer electronics and telecommunication industry, between pharmaceutical and chemical sector);
- need to develop international partnerships and alliances that certainly give companies the opportunity to grow but that requires specific competences and flexibility to manage the system of relationships worldwide.

All what stated above shows that firms need to change continuously, pushed both by internal and external factors. This process is never-ending because it depends on the interdependence between firm and its environment: any modification, taking place within the environment, affects strategic choices of firms as well as any innovation introduced even by a single firm can modify heavily the degree of competitiveness of other companies, modifying the way market forces interact among them. This means that firm and its environment *co-evolve* through a process of mutual exchange, where changes take place not only in terms of *time (evolution)* but also in terms of *space (co-evolution)*. This implies that what changes is not only the degree but also the content of competition as well as the way firms organize their resources to face the ever-changing and turbulent environment.

4.1. Organizational changes and human resources involvement

Today’s companies need to face continuously changes in strategy-structure adjustment since organizational assets are required not only to better arrange business resources but also to optimize them in order to achieve competitive advantage. In fact, the value of a resource is related not only to its procurement cost but also to *the way it is used*. A resource has not value in itself: its value emerges when it combines with other resources and participates to the effectiveness of the whole operation system.

One of the most important resources for a company is certainly human resources, seen as source for competitiveness; as highlighted by Schuler & Jackson (2014, p. 49) “having projected human resources issues more forcefully into their overall strategic outlook, companies turn made investments in people as prime source of competitive advantage”. Their role is particularly relevant in innovative processes where creativity, competences and flexibility are required to deal with change. Due to uncertainty and ambiguity of organizational change, it is important to involving people, which require to be engaged in continuous learning in order to keep up with organizational changes and ensure their continued contribution to the

organization (Schulz, 2001). However, it is not easy to improve people involvement, at least for three reasons.

The first one regards the kind of *commitment* between firm and its employees. The relationship should comprehend loyalty and profound values sharing: on one hand, firm enhances the value of specific human capital that contributes to competitive advantage creation and, on the other hand, employees have the possibility to preserve and increase their competences (Kofman & Senge, 1993). If employees do not feel enhanced, involved and committed, they may resist to change, provoking delays and inefficiencies.

The second reason is that human resources management is affected by *firm size* and *business culture*. For example, in cases of small firms, entrepreneurial factors influence personnel policies (including recruitment, selection, training, and compensation) and decisions are sometimes taken in base of personal bias and attitude of the entrepreneur and are affected by “family power” dynamics. This is sometimes counter-productive since personnel choices do not follow those formalized procedures, allowing to better match individual competences with job objective and description.

The third aspect that can limit employees’ involvement in organizational changes is the *organizational structure*. If the firm is a rigid hierarchical system, it is possible that information process slows down and people cannot interact and communicate properly (Laursen & Mahnke, 2001), therefore influencing negatively speed and effectiveness of organizational changes.

From this point of view, we can say that *organizational change is related to people mental patterns*. Regardless to the type of change, organizational modifications involve the way people think, acquire knowledge, accept and act for implementing change (Kofman & Senge, 1993). In this regard, an interesting example is reengineering and restructuring strategies adopted by several companies in the past decades in order to reduce costs and increase efficiency (Henkoff, 1994). In some cases, firms have ignored the complexity of these organizational changes and attacked their hierarchical dysfunctions unsuccessfully through simplistic or unidimensional means, believing that downsizing their hierarchies would automatically change their organizational dynamics. This view is misleading since hierarchy is necessary to allocate resources and set directions. In other words, we cannot take for granted that by “removing layers” vertical boundaries are loosened and that information, competence, decision-making, and rewards are anyway spread through lower levels of the organization.

In this regard, it is useful to mention the classification illustrated by some scholars, according to which there are firms that downsize mainly for cost-containment and profitability (cost-control), and those ones that did so to improve productivity, deal with competitors more effectively, or implement a new business strategy. Firms that cut back for the sake of cost control experience more post-downsizing problems than those that downsize for purpose of increased productivity (Henkoff, 1994). Moreover, downsizing can imply work force reduction without necessarily improving organizational operations, because some competences and skills are lost in the process. The consequence of downsizing differ in relation to the company’s ability to innovate their approach to human resource management. Firms that are typically slowest to make this kind of innovation are far more likely to incur higher-than-expected severance costs, to increase their use of costly overtime and consultants, and to lose more of the “wrong kind of people” than are those companies considered leaders in human resources innovation. These slow-to-innovate firms find themselves in a downward spiral, continuing to lay off people without the critical mass of skills and motivation to right the business (Kofman & Senge, 1993).

For what stated above, it is clear that employees’ involvement represents a crucial factor influencing change outcome and the firm’s ability to recombine competencies, knowhow and skills (Kogut & Zander, 1992; Pfeffer, 1994). A weak attention to human resources during the

change process can provoke organizational dysfunctions, since people represent one of the most crucial barrier to perform organizational adjustments. Regardless to firm size, workforce composition or industry, the key differentiator in change performing is most of the times the relative emphasis that a firm gives to human resources enhancement.

5. Infra-organizational communication for supporting business change

In order to face competitive environment, we argued that companies might achieve organizational flexibility not only through implementing structures more adaptable but also by training people within firm in dealing with change. Therefore, if people's mindset can represent a relevant factor for making change successful, how is it possible to develop that attitude needed to accepting and dealing with organizational changes?

Scholars and enlightened managers consider *internal communication* as one of the most important prerequisites to pursue organizational changes and improve business performance (Argyris & Schon, 1978; Phillips & Brown, 1993; Begley & Boyd, 2003). In order to be effective, communication should be a "circle-shape process" rather than a traditional downward spiral of information. This means that communication needs to take place through both *horizontal* ways (among managers as well as among employees) and *vertical/hierarchical* ways (between supervisors and subordinates). This virtuous cycle can facilitate information dissemination and support human resource policies according to firm goals and knowledge development.

In these terms, communication is aimed at cementing the bond between firm and employees, providing tools, modalities and contents, which are the base not only to do a good job but also to strengthen organizational culture (Schulz, 2001). For example, communication is determinant in training stage for people recently hired; in this case, socialization is achieved by maintaining open lines of communication, carrying out decision making in a consultative way, and by encouraging both formal and informal opportunities to make employees socialize.

In order to make communication effective, there are two important factors to consider, "social prerequisites" and "informative prerequisites".

Social prerequisites are the base of relationships among people within organizations and are usually generated and guided by the following aspects.

- *Mechanisms of control guaranteed by hierarchical positions.* Organizations need to be regulated by a central authority, which defines spaces and limits of people autonomy and guarantees that all tasks are carried out properly.
- *Habits and rules.* They represent a system of internal norms and implicit regulations, which manage job relationships, included those ones not officially formalized. They include also ethical behavioral codes, which people recognize and accept in their learning process within the firm.
- *Trust developed by repetitive relationships among individuals.* Reciprocal trust derives from different forms of interactions, regulated by a set of rules (both formal and informal), duties and feelings, which the members of a company repeat and acknowledge.

The other factor contributing to make communication more effective is *informative prerequisites*. They are related to the importance of giving people the appropriate information needed to do a job. People without information cannot be empowered to act with responsibility. Sharing information is determinant since respond to a natural desire in people to want to do a good job and participate in performance improvement (Phillips & Brown, 1993). Having people acquaintance with information regards not only job-related issues but also corporate culture

rules (both formal and informal), which regulate behaviors, roles and tasks (Schuler & Jackson, 2014). In case of new employees, for example, they learn transcendent company values and organizational folklore, including the importance of product quality and stories about the dedication and commitment of employees long since retired. This results in increased commitment to the company, willingness to work long hours, and decreased absenteeism and turnover.

Both social and informative prerequisites are more important for internationalized companies, where physical distance among subsidiaries can compromise information and knowledge dissemination and slow down the entire decision making process. Moreover, we cannot disregard that cultural differences can influence the way people learn and the extent to which they are familiar to routines and ethical behaviors (Grant, 1996). For this reason, information has to be codified in order to make it “visible” and usable to everyone. In this way, learning process can be improved generating new knowledge, which becomes the base for organizational routines development (Phillips & Brown, 1993).

The firm’s knowledge as well as all activities aimed at improving knowledge represent the foundation of a company’s distinctive competencies. However, to make these competencies truly useful, knowledge has to convert in “actions”. This means that knowledge should be incorporated into specific tangible assets (instruments, plants, etc.), managerial assets (routine, procedures, etc.) related to individuals’ skills, and cultural aspects that reside in the organization’s norms and values (Senge, 1990).

Moreover, we cannot disregard that knowledge codification becomes more crucial in case of *tacit knowledge*, which – differently from explicit knowledge (“know about”) – comprehends people know how that cannot always identified and codified. However, “tacitness” is the factor on which innovation takes place. Successful companies own the ability not only to have access to information and knowledge, but also to use those resources efficiently and effectively, by improving competencies suitable to generate innovation (Cohen & Levinthal, 1990; Kogut & Zander, 1992; Nonaka & Takeuchi, 1995). This is an ability, a tacit knowledge that cannot be expressed formally but it resides within people and organizational culture. For this reason, tacit knowledge may represent a distinctive competence because it is less imitable and, therefore, needs to be protected because it belongs to the business culture with its history, behaviors, policies and procedures. In other words, business culture is a social product, which company’s members constitute and maintain through their ongoing communicative interaction. In these terms, *culture is a product of communication* (Kofman & Senge, 1993).

Effective communication processes ensure that consistent, credible, and continuous information is shared so that employees can share a mindset about the business’s goals and means. In these terms, communication may help overcome resistance to change in which one common barrier is often a lack of information about the positive outcomes of change (Ulrich & Lake, 1990). At the same time, communication is the base to knowledge improvement because it allows to recombine new information with the existing knowledge so generating innovation (Wang *et al.*, 1998). However, developing communication is not easy to achieve due to several factors which obstacle informative flows.

First of all, many companies are still fearful of sharing information with employees, especially, when some “best practices” are specific and too complicated to be transmitted from one person to another. In particular, more knowledge resides in individual capabilities, more people tend to be in competition among each other and not inclined to share their own distinctive competencies and skills (Kofman & Senge, 1993).

A second factor concerns the fact that communication is often inappropriate and ineffective because few individuals control information and the degree of codification and standardization is limited (Schulz, 2001). Generally, power centralization and lack of empowerment do not

allow people to acquiring the needed knowledge to do their job effectively and participate to business operations.

Another factor regards the business organizational dynamics. Many companies remain hierarchically structured and retain bureaucratic procedures, which can obstacles information and knowledge improvement. For example, organizations often focus inappropriately on managing the life cycle of the hardware and software systems that produce the information instead of on the information itself. This implies that they fail to capture the additional knowledge necessary to achieve meaningful information quality (Argyris & Schon, 1978; Laursen & Mahnke, 2001).

We cannot disregard that technology and digital communication play an important role. In the past two decades, innovations have changed dramatically the way people communicate, facilitating their interactions in terms of time reduction as well as quantity and quality of information exchanged. We can say that with current information technology capabilities, there is no reason why anyone throughout an organization cannot have ready access to any information required to do a better job. Even though firm size and level of internationalization influence the degree of using internet and other technologies (Gregori, Marinelli & Temperini, 2015), the advantages arising by new information systems are noteworthy, since people can communicate instantaneously – despite time and space – and through a common global language. In other words, today's organizations are “virtual space” or “cyber-ba” [9], where advanced in information technology provides people with new and more efficient ways to communicate and with timely access to more information. This regards all business activities, not only bureaucratic procedures but also manufacturing systems, which become more flexible and faster. This is consistent with the innovation related to *Industry 4.0*, which organize firms as *cyber-physical systems* throughout large networks (Brettel *et al.*, 2014).

6. Final thoughts

Environmental complexity pushes firms to find new ways to compete, by acquiring and exploiting not only tangible resources but also intangible assets, which, more than in the past, represent the source for competitiveness.

This never-ending search leads companies to abandon their traditional hierarchical structures in order to create more flexible and adaptive configurations that help them to deal with environmental challenges. However, any process of organizational change requires the involvement of all members of the company, in terms of their comprehension and acceptance of business choices. This is one of the most important prerequisites to make change successful, resulting in knowledge improving and innovation.

Flexible structures not only allow firms to adapt faster to ever-changing business needs but also to facilitate information spreading. On one side, flexibility sustains communication process because interactions can occur without limits due to rigid hierarchies and bureaucracy; on the other side, communication represents an important prerequisite to implement flexibility, needed to realize changes. If in hierarchical structures information risks to be dispersed because of rigid top-down communication flows, in more fluid configurations information is available on a “just in time” base. This means that the specific information required to do a job goes directly to those people entitled to act in order to achieve business goals. From this point of view, flexibility regards not only the versatility of organizational structure and the modalities through which communication takes place, but also the managerial abilities suitable to interpret environmental changes and, consequently, modify quickly and efficiently strategic business paths. In this way, knowledge improvement comes from information combined with

experience, context, interpretation, and reflection; in these terms, knowledge is a high-value form of information that is ready to apply to decisions and actions.

In any case, a perfect solution that can guarantee stability in the long time does not exist, at least for two reasons. The first one concerns the fact that companies cannot seek stability because change is the today imperative to deal with both the task and general environment, and, sometimes, even to survive. The second reason regards costs and obstacles in modifying the previous *status quo* and implementing a new asset. Several and different factors limit change, like scarce resources, lack of strategic vision, managers' attachment to hierarchical power and people skepticism towards innovations.

Companies represent complex systems struggling to design structures, manage human capital and exploit tangible and intangible resources in order to create the products and services that markets expect and want. The international dimension makes these goals more difficult to achieve, because of cultural diversity, geographical distance and costs to support international strategies. At the same time, we cannot disregard that responsible behaviors and ethical issues are not an options but an integral part of the entire business strategy. This means that a company should maintain corporate integrity and pursue profit goals without compromising the social *milieu* (both inside and outside the firm) and the natural environments where it operates.

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