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Comments on 'Mastering strategic renewal: Mobilising renewal journeys in multi-unit firms', Henk W. Volberda, Charles Baden-Fuller, Frans A.J. van den Bosch. Long Range Planning, Volume 34, Issue 2, April 2001, Pages 159–178

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Original Abstract

How do large multi-unit firms in a deconstructing world reconcile the conflicting forces of profits for today and flexibility to adapt for tomorrow? Profits for today requires order, control, and stability: adaptation for tomorrow requires flexibility and creativity in the value-added system. Large firms in many industries are confronted with this challenge of exploration and exploitation. In the European financial services industries these conflicting tendencies are increasingly obvious. Existing large financial players seem well placed to exploit the present but ill suited to adapt to the future. Why is this so, and what can be done about it? We consider the mechanisms of selection, adaptation and co-evolution that take place between levels within the firm and between the firm and its environment, and from this identify four ideal kinds of strategic renewal journeys that organizations can adopt as a way of coping with increasing environmental pressures. We label these journeys: emergent, directed, facilitated, and transformational. We show how these ideal types represent different options for top, middle and front-line managers, and we identify how each type differs in its capacity to cope with the changing environment. We illustrate our renewal journeys with examples from Dutch (ING and Rabobank) and British financials (Barclays, Lloyds and Prudential) and other organizations such as GE, IBM, Intel, Novotel and Philips. We suggest that for mobilising renewal in well-established financial institutions—once protected but now exposed to the winds of change—managers have to recognise that many of the current journeys are unsuitable for the future.

Introduction

In our LRP paper on mastering strategic renewal in multi-unit firms (Volberda et al., 2001a), we defined strategic renewal as 'activities a firm undertakes to alter its path dependence (Volberda et al., 2001a, 160). We recognized in our conceptual paper that there is no one comprehensive theory of strategic renewal capable of explaining how and why multi-unit firms renew and develop over time as they do (cf. Dooley and Van de Ven, 1999; Van de Ven and Grazman, 1999, 186; Van de Ven and Poole, 1995). Therefore, by combining theories of selection and adaptation (Lewin and Volberda, 1999), we described four generic renewal journeys in a pure, idealized form: emergent, directed, facilitated and transformational renewal. For each of these generic journeys we mapped out the roles played by managers at the corporate and unit level, the transfer of knowledge between the units of the firm, and the process by which exploitation and exploration unfolds (Volberda and Lewin, 2003; Jansen et al., 2006; Sidhu et al., 2007). The emergent renewal journey is an evolutionary process in which the top management team (TMT) of the multi-unit acts as a passive amplifier of market forces. There is hardly any knowledge transfer between units (mainly financial control). In the directed journey, renewal is a very top-down process with enforced high

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levels of knowledge transfer between units; the multi-unit firms is considered to be a replacement for the market (Chandler, 1962). Facilitated renewal is a bottom-up process in which TMT acts as a buffer against market forces (Barnett et al., 1994). Transformational renewal is a journey in which all levels of management collectively shape the purpose of the multi-unit firm (Bartlett and Ghoshal, 1993) and where there is a high level of knowledge integration between units.

Since our publication in 2001 the field of strategic renewal has grown and diversified further. Schmitt et al. (forthcoming) show that between 1983 and 2001 the concept received only limited attention (21 publications) and that most of the empirical papers have been published since 2001 (74 articles). It is probably fair to say that our conceptual typology on modes of strategic renewal has spurred scholars to intensify empirical research regarding the paths of strategic renewal of multi-unit firms, the appropriate organization design of multi-unit firms, and also the specific roles played by TMTs and middle managers (MM) in strategic renewal.

Measuring paths of strategic renewal of multi-unit firms

Are our idealized journeys found in practice? In our LRP paper, we clearly signaled the need for more large-scale longitudinal studies where several journeys can be compared. In line with our call, many strategy scholars have taken up this challenge. They have calibrated strategic renewal journeys as patterns or paths (Siggelkow, 2002) established over a long period of time as a result of strategic actions taken by the firm. At the micro-level these strategic actions can be classified as either exploitative strategic renewal actions that strengthen a firm's current product-market combination or explorative strategic renewal actions that involve new modes of value creation (Volberda et al., 2001b; Floyd and Lane, 2000; Agarwal and Helfat, 2009; Uotila et al., 2009; Heyden et al., forthcoming). In this respect, exploratory renewal actions create a new path or alter existing paths and are considered to be relatively radical. Exploitative renewal actions are path-dependent and associated with incremental change (Kwee et al., 2011). Using advanced methods to code annual reports, empirical studies have shown that most renewal journeys of firms are industry-specific (Volberda et al., 2001b), that large incumbent firms seem to favor exploitation in their strategic renewal behavior (Flier et al., 2003), and that TMTs with a dominant Anglo-Saxon corporate governance orientation are more likely to pursue exploitative strategic renewal than those with a Rhineland corporate governance orientation (Kwee et al., 2011). In addition to exploitative versus exploratory renewal, others have looked at other empirical metrics of renewal such as renewal through internal versus external growth (Capron and Mitchell, 2009; Flier et al., 2003; Ben-Menahem et al., 2013) and the speed and volatility of renewal actions (Flier et al., 2003).

Designing ambidextrous multi-unit firms to enable renewal

Besides measuring journeys of renewal by studying strategic actions over time, scholars have increasingly focused on new shapes of organizational design of multi-unit firms that are replacing the traditional M-form (Bartlett and Ghoshal, 1993). Exploration and exploitation require fundamentally different and incompatible architectures (March, 1991; Raisch et al., 2009). In looking at how to resolve these tensions many scholars have focused on discrete states of organizing in terms of hyperadaptive organization forms, using concepts such as ambidextrous organizations (Tushman and O'Reilly, 1996; Gilbert, 2005), disposable organizations (March, 1995), poised organization (Kauffman, 1995), at the edge of chaos (Brown and Eisenhardt, 1998; Kauffman, 1995), dissipative structures (Prigogine and Stengers, 1984), semi-structures (Brown and Eisenhardt, 1997), hypertext form (Nonaka and Takeuchi, 1995) or, more generally, flexible organizations that are able to deal with the friction between change and preservation (Volberda, 1998).

More recently, several studies have examined various organizational attributes that enable multi-unit firms to address conflicting demands and achieve ambidexterity. Jansen et al. (2009) argue that multi-unit firms should structurally separate exploitation units from exploitation units, and they describe various organizational capabilities that can be used to enable ambidexterity such as senior team integration, cross-functional interfaces and connectedness. Their findings show that differentiation helps multi-unit firms to renew by buffering experimentation and developing new competencies from ongoing operations (Gilbert, 2006). However, multi-unit firms can only fulfill this potential by developing corporate capabilities that 'enable them to mobilize, coordinate, and integrate contradictory efforts, and to allocate, reallocate, combine, and recombine resources across dispersed units' (Jansen et al., 2009, 806).

These new ambidextrous multi-unit forms will be important for the process of renewal because they offset the problems of horizontal knowledge sharing and preference for exploitation as experienced in emergent renewal of traditional multi-unit firms. We believe that a challenge to researchers is to see that these forms are not all alike, any more than all multi-unit firms are alike. We suggest that in these new ambidextrous forms there are higher-order corporate routines that enhance renewal by allowing there to be more critical reflection on current practices and routines, and modification where needed.

Studying interactions between TMT and MM: a multi-echelon approach to strategic renewal

Following Hambrick and Mason's (1984) seminal work, researchers have devoted much energy to understanding how the CEO and other members of the managerial upper echelon might influence a firm's strategic renewal behaviors (Haleblian and Finkelstein, 1993; Kor, 2003; Zhang and Rajagopalan, 2010). They focus mainly on the emergent and directed renewal journeys as distinguished in our LRP paper. However, there is a growing recognition that extant models overlook the critical role played by a firm's middle management in influencing renewal in the firm. In light of this recognition, a so-called "middle management" perspective is now beginning to emerge as a complement to the upper echelon perspective that dominated earlier research (Rouleau and Balogun, 2011; Wooldridge et al., 2008; Yang et al., 2010). Drawing on both the upper echelon and middle management perspectives, and in line with our facilitated and transformational renewal journeys, recent studies have sought to take the literature forward by way of multi-level research that recognizes that both the firm's most senior executives and its middle managers matter when it comes to strategic renewal.

To deal with the challenges posed by strategic renewal, senior executives and middle managers must interact and jointly create an alignment between the organization and its environment. Prior scholarship has typically portrayed the executives who constitute the TMT as change agents whose role is to give others within the organization a sense of what the firm is seeking to achieve via its strategic renewal. In contrast, middle managers have been viewed as sense-makers, charged with executing the plans formulated by the TMT (cf. Floyd and Wooldridge, 1997; Rouleau, 2005). However, recent scholarship has started to acknowledge that middle managers probably play a more sophisticated role in strategic renewal (Floyd and Lane, 2000; Huy, 2002; Raes et al., 2011; Glaser et al., 2015; Heyden et al., forthcoming). If so, one important question that arises is whether there are particular TMT and middle management attributes that are more or less beneficial for successful strategic renewal. Do collective TMT attributes such as functional and industry background, age, gender and racial diversity combine with collective middle management attributes to drive strategic renewal? Further, it is conceivable that the potential for social categorization on the basis of demographic categories may lead to the emergence of fault-lines that demarcate TMT and middle management groupings (see Lau and Murnighan, 2005). Inasmuch as fault-lines can impede resource and information sharing (cf. Hambrick, 2007), what effect do such fault-lines have on collective TMT and middle management learning and on the unfolding of the strategic renewal process? There is currently no systematic theory or set of empirical findings regarding TMT–middle management dynamics that shape strategic renewal trajectories and hence a firm's ability to survive and grow.

Conclusions and future research agenda

Since our LRP publication in 2001, strategic renewal has become a vibrant field of study. Our study has provided significant conceptual and theoretical contributions in terms of defining strategic renewal, identifying renewal journeys, and highlighting the roles of corporate and unit managers, the level of knowledge transfer between units, and the balance between exploitation and exploration. The other papers in the LRP special issue in 2001 on strategic renewal also provided more empirical grounding (Volberda et al., 2001b). While our paper scoped out a more rigorous research agenda to the strategic renewal agenda, there is clearly still a strong need for more empirical research (Schmitt et al., forthcoming). In particular, the field could be advanced through empirical studies that measure (1) paths of renewal over time, (2) what particular forms of multi-unit forms are most effective in enabling strategic renewal, and (3) the interactions between TMT and MM in initiating and deploying strategic renewal. Although we expect strategic renewal research to continue its recent growth, we hope future studies will help us to rethink strategic renewal in the multi-unit firm and will provide managers and practitioners in multi-unit firms with new paths, organizational forms and managerial roles that will enable them to master strategic renewal and ensure long-term survival.

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