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Strategic renewal in institutional contexts

By **Jacomijn Klitsie**

Every organisation faces the paradox of how to balance stability with the need for change and renewal – two opposing forces whose interaction, particularly when change has been successfully engendered, we are only now beginning to understand.

How does change occur in organisations versus things staying the same? How can we understand renewal from this perspective: as an interplay between forces that drive things towards stability, and those that create renewal and disruption?

Take the example of company regulations, often considered rules that simply need to be followed. Regulations are a mechanism that can drive organisations towards adopting the same processes and behaviours over time. Yet not all companies interact with regulations in the same way. Take a look at the world's top performers: many global corporations are actively engaged with regulatory change, while others – think Uber and Airbnb – are finding innovative ways around these rules altogether.

How are organisations such as these and the people bound within their institutional environments able to initiate transformative change, despite the very strong forces that steer them towards staying the same? This was the key question addressed in a recent study we conducted titled *Strategic Renewal in institutional contexts*, in which we explore change in organisations on both a macro and an individual level, in an

environment where the need for stability competes with the desire for transformative change.

Stability versus change

That companies tend to develop set patterns of behaviour over time is well established in management literature. Institutional theory, in particular, demonstrates the many forces at play that drive companies towards stability and similarity – and away from change and innovation.

Yet what of the companies that do change, and change radically, with this transformation internally driven? How do individuals within these organisations – influenced by processes that drive them towards repetition and standardisation – still manage to initiate transformation?

We conducted a cross-sectional comparison of institutional theory research to gain an overview of how this paradox plays out. Traditional institutional theory, we discovered, typically attributes firms with a low capacity for change – with little focus on when or how this change occurs. More recent studies in the field however – in particular the areas of research called institu-

tional entrepreneurship and institutional work – show greater interest in change on both an individual and firm level, including how and when it occurs, and attribute firms with a greater capacity for change.

Despite this growing focus on change from an institutional perspective, a broad gap remains in our knowledge. What determines when and how individuals within an organisation will defy the isomorphic processes explained by institutional theory in order to transform operations and disrupt behavioural patterns?

Opportunities for change

Regulations are an example of a force that steers organisations towards stable and fixed modes of operation. Most firms comply with regulations – but many engage with regulatory forces in ways that, as our research revealed, can have profound implications for organisational performance.

At one end of the spectrum are firms such as BMW, which work to actively stay ahead of regulatory change: trying to be the first to introduce new standards and drive regulatory change. At the other end are the rule-breakers, such as Uber and Airbnb: two firms that are outspoken about not complying with existing regulations. Managers within these organisations are aware of regulations but seem to have made conscious choices not to comply with them.

Our research shows that firms at both ends of the spectrum outperform those that follow and adhere. Firms that actively engage, critically thinking about how regulations are shaping their firm,

whether they are useful and make sense, how they can be beneficial to them, or opportunistically looking at whether they are enforceable, perform considerably stronger.

What can managers take from this? While regulations can be forces for stability, they also provide opportunities: companies can choose how they interact with these forces, in the process creating strategic advantages and stronger performances.

Individual change

Organisations change; but at a micro level, how does this take place? Goals and strategies and how they are for-

mulated – what we call framing – are an important mechanism via which organisations both preserve existing processes and engender change. How do individuals who successfully create this balance behave? How do they manage to advance new goals while preserving core values or strategies?

An interesting example can be found in Nutrient Platform, a Dutch cross-sector organisation whose strategic goal is to change the way firms in the Netherlands deal with phosphorous and find a sustainable solution for its use. Around 33 diverse partners from sectors participate in this organisation: individuals from government, NGOs, agriculture,

and the private sector work together to meet one common goal.

While their strategic goal is shared, these partners have different reasons for wanting to see a change in the use of phosphorous in the Netherlands. Individuals bring contrasting values and strategic goals into the organisation, from economic incentives to environmental targets, yet they must somehow co-operate to reach a common aim.

Management literature posits that this scenario typically requires a process of constant conversing between individual parties until an agreed 'frame', or strategy is in place. Yet such a process is both time-consuming and unrealistic ►

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Strategic renewal in institutional contexts *(continued)*

By **Jacomijn Klitsie**

*“Depending on the type of innovation a manager wishes to foster, **they should identify** the kind of innovation behaviour displayed by their employees and whether it is disruptive or transformational in nature.”*



when such diverse values are at play. Our research, on the other hand, found an alternative working scenario and one possibly far more constructive: the active maintenance of a set of multiple co-existing goals and strategies.

At Nutrient Platform, we found a range of different frames or goals in use, all of which had been agreed upon by the organisation's partners. Each individual had a vested interest in only a number of these goals, yet supported the full set of goals in use – while any goals that clashed had been previously eradicated.

At an individual level, we noted that participants would engage with particular targets depending on the relevance of it to their organisation. Different frames would take centre stage depending on the type of external communication involved. For green-oriented publications for instance, the focus would be on the organisation's environmental goals. For communication with international organisations, it would be on economic potential. In other words, individuals were able to action goals and reach targets, while preserving their own organisation's values – balancing both innovation and stability.

The impact of the individual

How important is the individual in the process of innovation – and what determines when the outcomes of this innovation are explorative: disrupting the status quo, or exploitative; where the existing business model is strengthened?

We know that individuals actively work to maintain existing processes within their organisation – an activity essential for its survival. Yet they also work towards manifesting change: creating new processes, formulating new ideas and rules, and constructing new environments. This change is either disruptive or transformative – the latter being incremental in nature, treading the line between comfort and chaos.

In our research, we confirmed that the type of innovation carried out by the individuals within an organisation could be directly linked to whether the organisation was more explorative or exploitative in its innovation as a whole. In other words, explorative-oriented organisations have people who are working towards creating more radical and disruptive change, while exploitative organisations have people carrying out gradual institutional transformation.

While this is not a new finding, this link between individual innovation behaviour and firm-level change serves to connect existing literature on innovation to that of institutional theory – enabling shared definitions to be established and knowledge cross-referenced.

This finding also demonstrates again that innovation begins at the roots of an organisation and with the people within that environment. Depending on the type of innovation a manager wishes to foster, they should identify the kind of innovation behaviour displayed by their employees and whether it is disruptive or transformational in nature.

This research demonstrates the importance of individuals within an organisation in regards to the process of change. Whether the institutional work carried out by these individuals is creating or maintaining, their behaviour is clearly connected with the balance that exists within the organisation between the forces that keep these institutions the same, and those that allow it to innovate and change. ■

This article draws its inspiration from the PhD thesis *Strategic renewal in institutional contexts: the paradox of embedded agency*, written by Elizabeth Jacomijn Klitsie, and published as part of the ERIM PhD Series Research in Management. It can be freely downloaded at [WEB https://repub.eur.nl/pub/106275](https://repub.eur.nl/pub/106275)

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