

**Towards a Model for  
Organizational Transformation:  
Managing Structural-Relational Tensions  
in Multi-stakeholder Value Creation**

by

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## *Abstract*

*The paper aims to contribute to the development of a systemic model for organizational transformation, set in a complex context of continuous change, market ambiguity, organizational polyphony and multi-stakeholder value creation. Prior work has largely focused on relational aspects of change, or on the structural components of organizing innovative work. To uncover the dynamics of organizational transformation over time, a systemic model needs to integrate both dimensions, as well as a factor that represents direction, or movement. The paper evolves in three stages. First, we create a conceptual framework based on two research strands in organization change. The first one is the literature on the creation and recreation of stakeholder relationships. This issue has been discussed as either externally oriented involving strategic networks and inter-organizational relationships, or internally as social exchange theory. The second research strand is innovation and the specific question on organization design, commonly discussed as the ambidexterity problem. The combination results in a framework that puts focus on different organizational tensions that are experienced. Second, we discuss how these tensions are resolved through structural and relational means. Third, we situate the framework in complex context where the organization engages multiple stakeholders in its value creation. We make propositions regarding managerial tensions, their resolution, and what this means for organizational transformation.*

## Introduction

Increasingly shorter business- and product life cycles, global standardization, hyper competition (D'Aveni, 1994) and other intensifying business phenomena (Hamel, 2009), demand that organizations continuously innovate and transform, although larger shifts may stretch out over decades. Research holds that organizational transformation is difficult (Coch & French, 1948; Foster & Kaplan, 2001) and that an overwhelming majority of transformation initiatives are nowhere near reaching their targets (Beer & Nohria, 2000; Jacquemont, Maor, & Reich, 2015). Authors have mainly discussed the inability of organizations to renew themselves (Anderson & Jap, 2005; Danneels, 2003; Foster & Kaplan, 2001; Henderson, 2006). Even if the leadership cadres in organizations understand the relevance in competing in a different way, they become imprinted with ways of working that have created their past success (Miller, 1990), with their established competence or capabilities (Henderson, 2006; Leonard-Barton, 1992), with the strong ties they have to existing customers (Danneels, 2003), or to other stakeholders, and with generally supported assumptions about the organization and its markets - what Prahalad and Bettis (Bettis & Prahalad, 1995; Prahalad & Bettis, 1986) calls dominant logic. This creates both operative and cultural lock-in effects (Anderson & Jap, 2005; Foster & Kaplan, 2001).

Transformation may have many faces. We here focus on transformation as the continuous flow where new, innovative and entrepreneurial initiatives turn into established operations, processes and routines as the organization progresses towards a purpose or vision.

The issue of balancing between established operations with new activities is a classic question in the management literature, with roots in the understanding of different company logics (e.g. Burns & Stalker, 1961; Lawrence & Lorsch, 1967) and in the literature on the management of innovation (Baden-Fuller & Volberda, 1997; Duncan, 1976; Poole & Van de Ven, 1989; Van de Ven, Angle, & Scott Poole, 2000; Van de Ven, 1986).

On one hand, established operations need to be continuously updated to stay competitive. The honing of the capabilities to improve existing operations will mostly be of an incremental nature, and follow an exploitation logic (March, 1991). We will refer to this as situations in which the organization continuously *renews* its established operations. On the other hand, improving existing capabilities and operative models will not be enough, especially so in times of fast technological and/or market change. The organization also need to continuously work on innovations and entrepreneurial initiatives that are outside the current scope of operations. The development of capabilities for innovative/entrepreneurial initiatives is likely to follow an exploration logic (March, 1991). We will refer to this is as situations where the company creates the *new*.

The renew-new tension is the core topic of the literature on ambidexterity (Duncan, 1976). The field has been enjoying much interest, especially since the beginning of the 1990's with seminal contributions

made for example by March (1991), Tushman & O'Reilly (O'Reilly & Tushman, 2004, 2008, 2011; Smith & Tushman, 2005; Tushman & O'Reilly, 1996), and Birkinshaw (Birkinshaw & Gibson, 2004; Gibson & Birkinshaw, 2001; Raisch & Birkinshaw, 2008).

Just as ambidexterity is at the heart of much innovation literature, issues of change and transformation are at the heart of theory in the field of organization change and development, as indicated by the amount of research dedicated to the issues (see reviews by e.g. Armenakis & Bedeian, 1999; Oreg, Vakola, & Armenakis, 2011; Poole & Van de Ven, 2004; Szabla, Pasmore, Barnes, & Gipson, 2017). The scholarly work in the field focuses to a high extent on the effectiveness of change (Beer, Eisenstat, & Spector, 1990a, b; Burke, 2011; Fredberg, Norrgren, & Shani, 2011; Szabla et al., 2017), which in turn is dependent on a multitude of factors. These include how much employees and other stakeholders trust management, the collective ability to change, the objective of the change/transformation, and how much they agree with the reasons for the change. It also includes a variety of process and leadership factors including the extent to which employees are involved in the change process (Burke, 2011; Ford, Ford, & D'Amelio, 2008; Reichers, Wanous, & Austin, 1997). Moreover, a transformation also involves the creation of new relationships, and the reconstruction, destruction or severing of established relationships with different stakeholder groups. In essence, the organization departs from a position where it maintains relationships to a set of stakeholders, towards a goal, vision, purpose or higher ambition (Beer, Eisenstat, Foote, Fredberg, & Norrgren, 2011) that will demand these relationships to change. We will refer to this as the *position-aspiration* relationship.

This paper argues that the first relationship (renew-new) creates *structural tensions* that are associated with well-observed factors of structural inertia (Hannan & Freeman, 1984; Huff, Huff, & Thomas, 1992; Levinthal & March, 1993; Schwarz & Shulman, 2007). This form of inertia makes companies over-emphasize the reliance on established operations and builds on a logic of trusting what you are, or know, over what you can be, or learn.

Similarly, the second relationship (position-aspiration) creates *relational tensions* that are associated with cultural inertia and attending to (a) current identity and (b) the quality dimensions of current relationships (Foster & Kaplan, 2001; Levinthal & March, 1993; Tushman & O'Reilly, 1996), for example to customers (Danneels, 2003).

The paper explores the effects of the combination of the structural and relational tensions, and what this means for our understanding of transformation. We position the developing framework in the context of multi-stakeholder value creation, which is being demanded by an increasing number of business leaders, exemplified in the statement from Aug 19, 2019 by 181 CEOs in the US Business Roundtable.

We make four propositions that build up our argument. Further, we reason around organizational practices to handle the tensions, and draw conclusions for the management of organizational transformation.

## Two perspectives on transformation

### Structural perspective

Organizational transformation can progress through gradual improvement in the core business. Over time, the result may be a major shift in the organization's core activities. The more common case, however, is that the organization has established operations based on a set of well-known activities and outcomes that create internal and external expectations, resource allocation principles and decision rules, and a set of innovative, or entrepreneurial initiatives that demand different activities, processes, decision rules and resources. Having to manage both creates a very well-known challenge for organizations. The dominant logics (Bettis & Prahalad, 1995; Prahalad & Bettis, 1986) of the established and the innovative differ, and this also demands new knowledge and capabilities to be developed. Tensions arise on where to allocate management time, leadership skills and other resources in the organizational structure. Such *structural tensions* are well documented in the innovation literature. Indeed, much of the research explaining why organizations fail in innovation, refer to factors related to structural tensions (Christensen, 1997; Utterback, 1994). Take for example the challenges experienced by traditional newspaper outlets in combining operations and revenue models based on the paper newspaper with new operations and revenue models based on digital media. Although it could be argued that the change in activities would mostly be extensions of the core of the newspapers (Christensen, Skok, & Allworth, 2012), newspaper organizations found that everything from the clock speed of news production to the ability of the sales force (and naturally, the publication platform) changed so much that it became very difficult to organize them in the same structures (Christensen et al., 2012; Fredberg, 2003; Fredberg & Pregmark, 2016; Tushman & O'Reilly, 1996).

The dramatically high failure rate of transformation initiatives (50-75% according to studies - Beer & Nohria, 2000; Jacquemont et al., 2015) has led a broad set of experts to suggest that innovation and change is best done by relieving the structural tensions by separating the “established” (or here: renew) and the “new” (Baden-Fuller & Volberda, 1997; Christensen, 1997) in time and/or space (Baden-Fuller & Volberda, 1997). This form is referred to as structural ambidexterity (Smith, Binns, & Tushman, 2010; Tushman, Smith, Wood, Westerman, & O'Reilly, 2010). Structural ambidexterity generally benefits innovative work (as it can create its own organization) but creates issues when innovations and the core processes of the organization need to be amalgamated.

The alternative is to not separate, but drive continuous renewal of the established business, and innovation/entrepreneurship in the same organizational structure, what is referred to “contextual ambidexterity” (Birkinshaw & Gibson, 2004; Gibson & Birkinshaw, 2001; Smith et al., 2010). This involves creating an environment that supports exploratory and exploitative activities in the same organizational unit (Gordon & McCarthy, 2011) and drive innovative initiatives through an

entrepreneurial process. A general assumption is that this is highly problematic as the set-up of an exploitive organization is not suited for the iterative work processes, needed for radical innovation and exploration (Shani, Chandler, Coget, & Lau, 2009).

Over time, the relationship between objects of the “new” and the “renew” (*Figure 1*) needs to be challenged as the innovations or the entrepreneurial initiatives, revitalize and/or become integrated in the core processes of the organization. This, however, is ground for one of the major problems in innovation research – the inability for large organizations to change on the basis of new innovations.

Authors have sought explanations for this phenomenon in things from interpretive schemes guiding decision making (Dougherty, 1992), psychological reclusion mechanisms such as the not invented here syndrome (Antons & Piller, 2015), in the systems, processes, skill sets and capabilities used (Leonard-Barton, 1992), inability to recognize the value of new ideas (Cohen & Levinthal, 1990; Zahra & George, 2002), process aspects (Klein & Sorra, 1996; Van de Ven, 1986), poor goodness of fit, or the lack of alignment between the new activities and the established system and general capabilities such as of learning (Teece, Pisano, & Shuen, 1997) and resource configuration (Eisenhardt & Martin, 2000).



*Figure 1 Structural tension between established, which is “renewed” and the innovative – the “new”*

Issues of ambidexterity and the necessity to develop capabilities to handle transformation are central to the literature on innovation. Arguably, contextual ambidexterity is essentially a complexity problem, which translates into paradoxical tensions (Fredberg, 2014; Smith & Tushman, 2005) that managers find difficult to solve on their organizational level (Andriopoulos, 2003; Fredberg, 2014). Gibson & Birkinshaw (2001) argue that there are four major ways in which organizations manage ambidexterity internally. The first, task partitioning involves simply dividing tasks between people. The second and third solutions have to do with separation in time (as in a development process) or in space (in separate departments). The fourth alternative is that individuals acquire “meta-level capabilities” that allow them to juggle priorities and decisions that take both exploitation and exploration at the same time. The authors mirror the conclusions by Poole and Van de Ven (1989) to a high extent, with the exception that the latter argue that the paradoxical tensions that occur may be resolved by a higher level solution (see also Fredberg, 2014) that allow for a reconceptualization of the problem. Such a case could for example be if what seems like conflicting priorities are resolved by a higher-level framework/concept in which both alternatives can fit in or even reinforce each other.

## Relational perspective

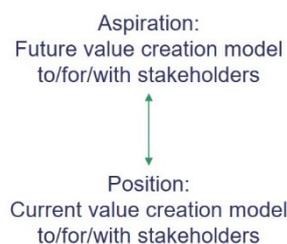
The last decades' shifts towards open innovation, customer interaction and digital platforms, turn the focus from a strict assumption that the value creation model of organizations is based on the ability to produce something "to" someone (mass market products), to a model based on value "for" someone (implying customization or personalization, e.g. Tseng & Piller, 2003), and in many cases producing that value "with" the recipient, such as in cases of open innovation, customer co-creation and social media platforms, what Toffler (1980) "prosumers". Organizations do not only produce value to/for/with purchasers of its products or services, however, but for a broader set of stakeholders, including employees, owners, communities/citizens etc.

To support stakeholders in recreating the relationships with the organization, a new understanding of what the organization is and what it could be needs to be created - "a collective sense of what is important and why" (Senge, 1990, p. 299). As argued by Huy (2005), people seek meaning in changes being pursued, and this emotional connection helps unify people to mobilize effort. A strand of research in this area highlights the value of a joint higher ambition about the value the organization can create with its stakeholders (Beer et al., 2011), or purpose for the transformation of the company (Beer, 2009; Collins & Porras, 1994). A higher ambition, purpose, vision, mission or clear objective works sense-giving in the organization (Fiss & Zajac, 2006; Gioia & Chittipeddi, 1991; Maitlis & Lawrence, 2007; Rouleau, 2005; Weick, Sutcliffe, & Obstfeld, 2005), thereby helping employees to enact the changes going on (Markides, 1998). This in turn creates possibilities for the organization to build trust and engage in the strategic direction (Heuvel, Demerouti, Schreurs, Bakker, & Schaufeli, 2009).

The idea that change disrupts the relationship with internal and external stakeholders is integral to the study of organizational transformations (Coch & French, 1948; Strebler, 1996). A new aspiration ambition or direction that lies beyond the organization's current position, or operations, means that the organization builds a new relationship, or relational contract (Gibbons & Henderson, 2012), with its stakeholders (*Figure 2*). Internally, this means that the psychological contract with employees (Dirks & Ferrin, 2002; Gibbons & Henderson, 2012; Ring & Vandeveen, 1994; Robinson, 1996) changes. Indeed, Huy (2005) argues that change can be experienced as an attack on identity and emotional stability. To handle this challenge, the organization needs high levels of trust (Robinson, 1996; Schoorman, Mayer, & Davis, 2007). It should also be acknowledged that the organization risks this trust by entering change process, as these may both produce and destroy trust and legitimacy, depending on how they are pursued (Huy, Corley, & Kraatz, 2014; Lines, Selart, Esepedal, & Johansen, 2005). Indeed, as authors increasingly have identified that literature on change/transformation have not paid enough attention to a growing need for including polyphony (instead of monophony) when working to transform an organization (Bartunek & Woodman, 2014). This points to a change in the psychological contract between the organization and its employees, where the latter takes a different role in the value creation

model of the organization and are organized differently. When we change the direction of the company, we also change the way in which the organization is understood by its members – its values and meaning systems (Gioia, 1986). The heuristics that organizational members use to make decisions then also change. This brings instability to the way organizational members and external stakeholders understand the organization (Gioia & Chittipeddi, 1991). A similar tendency exists for innovations that do not fit into the interpretation scheme of the organization (Dougherty & Heller, 1994). As the interpretive scheme that people have been using to understand the organization and its direction changes, its members become insecure. Trust is lost, and the lack of heuristics and an interpretive scheme risks stifling decision making and creating upward delegation that congests the managerial system.

Externally, the expectations are formed by outside stakeholders such as customers, suppliers, communities, owners, regulators, NGOs or other relevant stakeholders need to be renegotiated, and the network of ties which is a part of the organization’s position needs to be recreated to allow the organization to bring in knowledge that informs the new situation and lower transaction costs in the exchange between the organization and its partners (Dyer & Singh, 1998; Gulati, Nohria, & Zaheer, 2000). The organization may change its business model in one or more ways, and thereby the value it creates to/for/with customers, owners, governments NGOs or other stakeholders, as well as the activities through which it interacts with most of these stakeholders (Zott & Amit, 2010). Not all stakeholders will be affected in the same way and to the same degree, naturally, as they differ in their roles in the organization’s value creation and value capture. When these ties are affected in an intended move between the current position, and the aspiration, *relational tensions* arise, as both internal and external expectations and relational contracts need to be created, rebuilt or severed.



*Figure 2 Position-Aspiration: A relational axis of organizational transformation*

It is also not necessarily so that all change disrupts the relationship with stakeholders. Incremental improvements, as well as innovation, may deepen the relationship with current stakeholders, especially if they are involved in the development process (Berger, Möslein, Piller, & Reichwald, 2005; Fredberg & Piller, 2011; Ledford & Mohrman, 1993; Sawhney, Verona, & Prandelli, 2005; Verona & Prandelli, 2002; Wooldridge & Floyd, 1990) as the relationship becomes built on a premise of development rather

than on a dated perception of what the company is and what it should do (Danneels, 2002; Fredberg & Piller, 2006).

The concept of trust has been broadly investigated in previous research (Mayer, Davis, & Schoorman, 1995; Schoorman et al., 2007; Zak, 2017). Trust is said to be crucial for high performance (Zak, 2017, Brown et al, 2015). Trust is also described as key for enhancing creativity and innovation (Dougherty & Hardy, 1996; Ekvall, 1996). Activities to create trust have also been identified as key for releasing tension between the old and the new working models and contribute to solving the ambidexterity problem contextually (Fredberg & Pregmark, 2018).

## A structural-relational model of organizational transformation

Earlier research has empathized different types of inertia that inhibit established organizations in their transformation processes. With Tripsas and Gavetti, (2000), organizational inertia limits the search process of established firms, which inhibits them from finding and prioritizing ideas/innovations far from their core. Such local search - “the behavior of any firm or entity to search for solutions in the near neighborhood of its current expertise or knowledge (Cyert & March, 1963; Stuart & Podolny, 1996). The not invented here syndrome –cognitive resistance to accepting information and/or solution originating outside the own unit (Antons & Piller, 2015) – increases this tendency. Further, even though firms may find possible solutions outside the current scope, their selection criteria may greatly favor the dominant performance metrics of current products (Henderson, 2006), or variables that speak to deeply ingrained values that may be rendered outmoded or that may need reinterpretation. Moreover, strong pressures from external stakeholders towards steady outcome of production and profit streams leads to the focus of existing routines and standard operating procedures (Cyert & March, 1963) and therefore an avoidance of new initiatives that may introduce too high variance in outcomes. The effect is that firms concentrate on similar technology areas and tend to produce incremental innovations within these areas (Rosenkopf & Nerkar, 2001).

In both the “renew-new”, and the “position-aspiration” relationships, organizations experience tensions that are caused by inertia (Figure 3). With March and Simon, inertia is created by routines: “a fixed response to a defined stimulus” (March & Simon, 1958). With Zollo and Winter, it denotes a “learned and stable activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness” (2002, p.340, describing dynamic capabilities). Inertia can also be caused by the reliance on established competence, which create deeply help sets of priorities and hence dims the view of needed changes or innovations (Henderson, 2006).

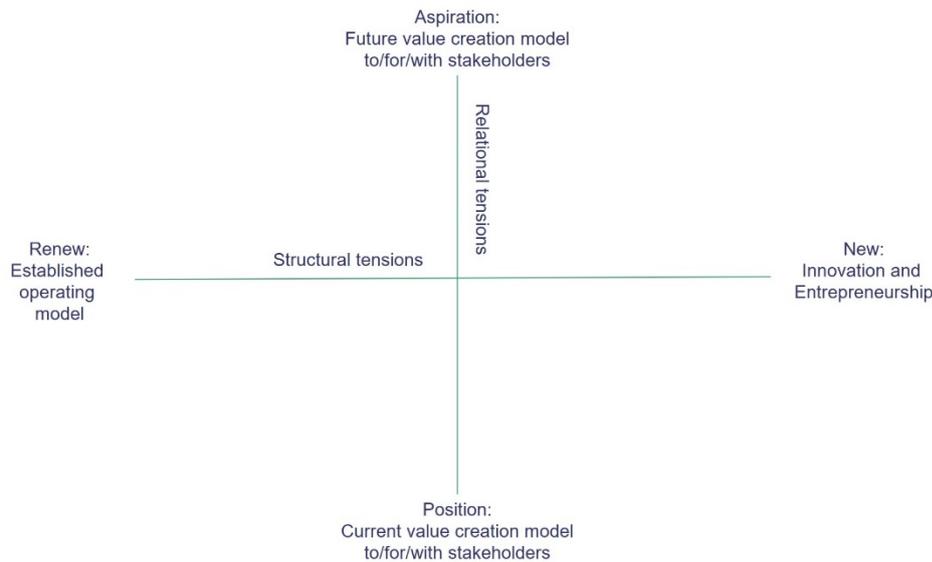


Figure 3 A structural-relational perspective on transformations in established structures

The first relationship (renew-new) creates structural tensions that are associated with well-observed factors of structural inertia (Hannan & Freeman, 1984; Huff et al., 1992; Levinthal & March, 1993; Schwarz & Shulman, 2007). This form of inertia makes companies over-empathize the reliance on established operations and builds on a logic of relying on what you are, or know, over what you can be, or learn. These structural tensions are the cause of the ambidexterity problem – the inability of organizations to sufficiently manage both current operations and innovative/entrepreneurial initiatives. If the distance between “renew” and “new” becomes too great (*Figure 1*), it becomes unmanageable in a single structure. Often this structure is proposed to be constructed outside the organization to achieve structural ambidexterity (Gibson & Birkinshaw, 2001; O'Reilly & Tushman, 2011; Raisch & Birkinshaw, 2008). We imagine this distance to be in some key organizational variable/variables such as resources, capabilities, purpose, brand or similar. Indeed, researchers have concluded that organizations seek and accept innovations with some degree of relatedness in some core variables (e.g. Farjoun, 2002; von Hippel, 1978), and we infer that they therefore are less likely to do the opposite.

The remaining option – contextual ambidexterity – increases structural tensions that create complexity. Following Smith and Lewis (2011), such complexity results in paradoxical tensions (conflicting, yet interdependent choices) for people in the organization around resources, attention, management time etc.. Authors have found that a higher order solution such a model of the future state, an overarching goal or a purpose, serves to resolve such paradoxical tensions, or at least relieve the pressure created on decision makers (Andriopoulos, 2003; Fredberg, 2014). Poole and Van de Ven call this “synthesis” – a new concept is introduced to resolve the paradox (1989). A new concept, or hypothesis, of the future value creation model of the organization does not fully remove the conflicts that exist today but may motivate them as a part of a longer-term aspiration that includes a future resolution of the tensions. Such an aspiration make take the form of a long term strategy, an ambitious goal (Collins, 2001), purpose

(Bartlett & Ghoshal, 1994; Birkinshaw, Foss, & Lindenberg, 2014; Gartenberg, Prat, & Serafeim, 2019; Malnight, Buche, & Dhanaraj, 2019), or a higher ambition (Beer et al., 2011; Foote, Eisenstat, & Fredberg, 2011) that creates some clarity around the future value creation model. A relational perspective on transformation therefore helps relieve the structural tensions by focusing on the interrelationship between the current value creation model to/for/with stakeholders, and the future value creation model to/for/with stakeholders. The further apart the “new” and “renew” are, the higher the relational effort that needs to be put in to release the tension. Authors describe that paradoxical tensions can be resolved by higher level solutions (Fredberg, 2014; Poole & Van de Ven, 1989; Smith et al., 2010). The higher the trust and engagement, the more people are willing to invest in the transformation by taking action beyond the call of duty (Beer, 2009; Huy, 2005). The stronger the higher ambition, the higher the likelihood that these actions are in line with the strategic direction (Beer et al., 2011).

Similarly, the second relationship (position-aspiration) creates relational tensions that are associated with cultural inertia and attending to (1) current identity and (2) the quality dimensions of current relationships (Foster & Kaplan, 2001; Levinthal & March, 1993; Tushman & O'Reilly, 1996), for example to customers (Danneels, 2003). Change theory posits that established relationships to employees implies mutual expectations inherent in a psychological contract, and that the expectations on a breach of this contract also limits organizations in their change efforts (Battilana & Casciaro, 2013; Coch & French, 1948; Strebels, 1996). Authors have also pointed to the inclination of organizations to rely too much on the current relationship with customers, which turns their attention to the preservation of these customer relationships, with the focus on the performance variables that serve these customers best (Anderson & Jap, 2005). In other words, the “customer is always right” with regards to their demands, also in cases where these demands counteract the renewal process of the organization.

Confronted with such relational tensions, the organization can either choose to solve them in the same organizational culture or have different parts of the organization create different cultures based on the relationship created with internal and external stakeholders. When the distance between the aspiration and the current position becomes too big (*Figure 2*), and thus creates too much relational tension, it is common that leaders turn to resolving the tension through structural means, i.e. to take a reductionist approach where aspirational initiatives are separated out in time and/or space. A structural solution hence enables a resolution of the relational tensions.

*Proposition 1: Both structural and relational tensions continuously exist in organizations, but in various degrees. Organizations actively use one relationship to relieve tensions in the other relationship.*

*Proposition 2: The greater the distance between what exists, and what can become, as measured by some factor, or factors or for example technology, purpose, market, resources, the harder it is for management to contain it in one organization*

## Means of transformation

The reasoning above provides a structure for reasoning around organizational transformation from a structural-relational perspective. The structure, or framework, could be used in any transformation process. To exemplify the use of the framework, we will focus on situations where an organization deliberately intends to apply a “higher ambition” to increase the value created for a broad group of stakeholders (Beer et al., 2011). Such is for example the statement from August 19, 2019 from 181 CEOs in the American Business Roundtable who commit to leading their companies to the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.

*Figure 4* depicts different ways in which an organization can transform with a higher purpose, or higher ambition in mind. An organization can choose to stay in its current value creation model with the same stakeholders and deepen the relationship to these stakeholders (Q3 in *Figure 4*). The organization may naturally still be driven by a purpose, and the task is then to find ways to deepen this relationship. The organization may naturally still engage in large scale organizational changes, for example to create a more well-functioning internal system. The organization may also choose to rebuild its current value creation model, for example by reconfiguring existing components into a new offering that creates a new kind of value to/for/with stakeholders (Q2 in *Figure 4*). This does not necessarily create technological challenges, but certainly demands new ways to treat these relationships. Another way to develop is to engage in innovation that increases the value to/for/with stakeholders but does not change the value creation model as such (Q4 in *Figure 4*). This could for example be the case if an organization develops radically new technology that serves customers in the same way and does not particularly change the relationship to any other stakeholders. This causes challenges in terms of technology and implementation, but not in terms of changing expectations and organizing of external and internal interfaces. The fourth way is to both change the value creation model and the technology (Q1 in *Figure 4*), which naturally creates both kinds of challenges.

With the help of a structural perspective combined with a relational perspective, we can start identifying areas of practice that individually or combined contribute to an organization’s transformational success (*Figure 4*). An organization may have initiatives in all four quadrants of *Figure 4*. Q2-3 focus on the effectiveness of the current model and its renewal. We hypothesize that the trust/engagement with stakeholders create a higher willingness by stakeholders to innovate/be entrepreneurial or be open to innovations/entrepreneurship (Q4). We also hypothesize that a stronger higher ambition which is shared by stakeholders enable management to allow more empowerment and autonomy, as traditional means of control can be substituted with ideology (Q1).

Below a discussion around each area Q1-Q4 can be found.

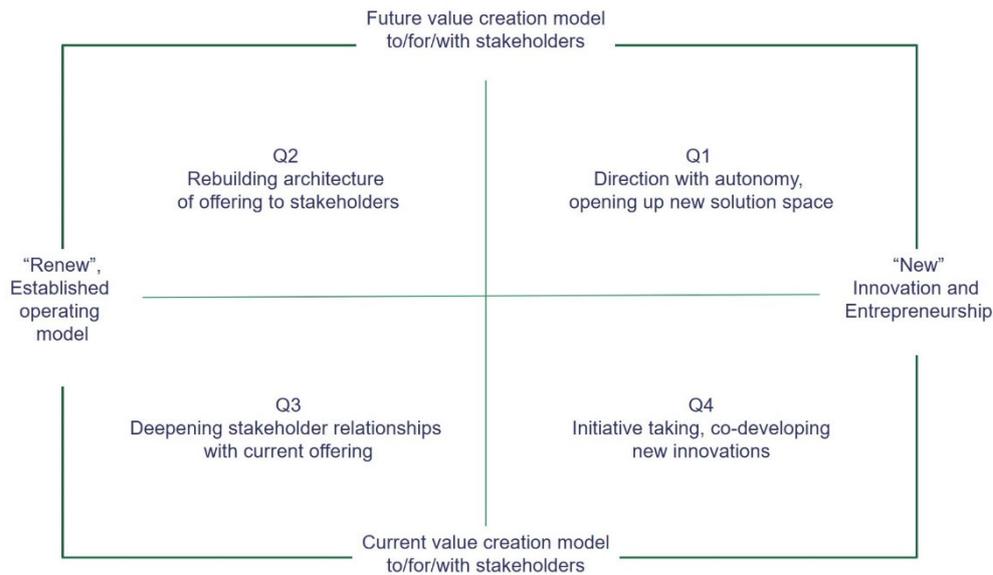


Figure 4 The square of organizational transformation – sketching out areas of explanation

**Q1. Direction and autonomy, opening up new solution space:** For entrepreneurial initiative to flourish and to spur innovation it is essential to give members of the organization autonomy and freedom in their work (Fredberg & Pregmark, 2018; Shani, Chandler, Coget, & Lau, 2012). A challenge with giving the organization autonomy could be to make sure that the organization still is moving in a shared direction. Still leaders need to find that very balance to be able to continuously take steps forward on the shared organizational journey and allow and encourage initiatives which they cannot control. According to Bonchek (Bonchek, 2016) a shared purpose could be the most important tool to help leaders letting go of control of activity but remain in charge of the direction. Externally, a purpose serves as a uniting force. This is particularly needed in situations where multiple actors need to align around a joint idea, in what Zarka et al. have called “braided organizations” (Zarka, Kochanovskaya, & Pasmore, 2019).

An example of how the idea of a future model of value creation with innovative or entrepreneurial initiatives is combined, is the work by Novo Nordisk in its ambition to solve the diabetes riddle. The organization, which is global market leader in insulin with around 30% market share, is engaging with communities, patients, insurance companies, city governments and multiple other stakeholders in a project called “Cities Changing Diabetes” to learn about other ways to treat and prevent diabetes than providing insulin.

When organizations engage in such exploration processes, either only internally or with external stakeholders, it opens the solution space for innovation and allows for a reinterpretation of what the organization does. In such exploration processes, an idea about the future value creation model to/for/with stakeholders provides direction and guidance in decision making (Bonchek, 2016), which in turn allows for relative autonomy of internal innovators or entrepreneurs (Fredberg & Pregmark, 2018).

This will well-suited to a fast-moving world, where organizations cannot wait for “orders” from the top, but need to take every opportunity to make adjustments and figure out improvements. A shared purpose can help to create alignment with less control mechanism (Bonchek, 2016). Instead of relying on a bureaucratic system a shared purpose can be developed into “doctrines”, decision rules, or heuristics (Eisenhardt & Sull, 2001; Van de Ven, 1986), that support fast decisions but within a shared frame of purpose.

**Q2. Rebuilding architecture of offering:** An organization may also use its current assets and capability as a basis for recreating the value creation model to/for/with stakeholders. Consider for example Bygge Inc. (alias), a Scandinavian construction company, that experiments with the idea of how it could reimagine the total value created for all stakeholders created and rethink how it could charge in relation to that total value. In practice this could for example mean that they do not focus on renovating suburban kitchens but discuss what creates quality of life for tenants and base the revenue model on that. Maybe a safe living environment is more important than kitchens? Maybe there are costs in the community that can be avoided, and where a financial incentive for Bygge can be built in if the company contributes to lowering such costs? Authors such as Henderson and Clark (Henderson & Clark, 1990), as well as Pisano (Pisano, 2015) have discussed “architectural innovation”. The latter sees architectural innovation as the combination of new business models and new technological competence. The former argues that it is the reconfiguration of existing components in the organization, which creates important development challenges, as such architectural competences become effective when they are aligned with the organizational design. In other words, a change in the architecture needs to be followed by a change in the organization design, even if the technical advancements are limited. Here, we focus on the architectural change of components as the organization further develops its value creation to/for/with stakeholders. The established knowledge of components allows the organization to quicker align the organization to purpose, although they are being used in slightly different ways.

**Q3. Deepening Stakeholder Relationships with Current Offering/Organizational effectiveness:** How to design for organizational effectiveness has been a frequently discussed in literature (Beer, 2009; Galbraith, 2014). Many authors advocate the need for an aligned system (Galbraith, 2014) to create effectiveness. In a transformation, that alignment is deliberately destroyed. Whereas it could be argued that alignment can come from authority and hierarchy in a stable environment, it seems like organizations need to enhance their capability to quickly self-align and adapt (Johansen, 2017). Key for creating an opportunity for organizational member to align is a sense of trust. Johansen (Johansen, 2017) even describes the need to create positive emotions and energy as a leadership literacy of the future.

At IKEA, a fundamental part of the furniture giant’s strategy is to broaden the assortment into other known product categories that are integrated into the offering and to a large extent technically integrated into the company’s modular design. IKEA’s higher ambition of creating a better everyday life for the

many people helps the organization to trustfully deepen the relationship to its stakeholders, but it does not create the same structural and relational tensions as in cases where innovation and entrepreneurship, or new value creation models demand organizational transformation.

**Q4: Initiative taking, co-developing new innovations:** Not all relationships to stakeholders are the same. Some are more trustful, contain more knowledge exchange (Granovetter, 1973, 1983), mean a higher degree of social capital (Nahapiet & Ghoshal, 1998) or are set up for co-development rather than simple transactions (Franke & Piller, 2004; Fredberg & Piller, 2011). As argued by Birkinshaw & Gibson (Birkinshaw & Gibson, 2004) a culture of trust is a necessity to make contextual ambidexterity work in practice. Internally, taking part in both exploitive (renew) and explorative (new) work requires judgement on an individual level (Tushman & O'Reilly, 1996). A bottom up approach is required, where individuals or teams (Lavie et al, 2010) are trusted to take decision regarding for instance the direction of their work or allocation of time. Trust is also found to be one key mechanism for succeeding with corporate entrepreneurship (Fredberg & Pregmark, 2018). At Adidas, the organization managed to create relationships to users that allowed the organization to develop innovative soccer shoe designs that differentiated on new competitive dimensions. Internal entrepreneurship initiatives have been shown to demand “attachment with autonomy” where a deep connection to the established value creation model seems to be critical for success (Fredberg & Pregmark, 2018).

#### Alignment and misalignment in organizational transformation

We argue that if transformation is to be seen as a continuous mode of an organization, both structural and relational tensions need to be resolved. To succeed with creating a flow of transformation, where innovative and entrepreneurial initiatives continuously turn into established operations, processes and routines as the organization progresses towards a purpose or vision, an organization needs to handle the allocation problems and paradoxical tensions that occur as the company aims to optimize both on the renew and the new, and the relational challenges that come with altering the expectations and exchange with different stakeholders as well as creating new ties. What is created is a situation where the larger part of the organization (and possibly its network partners) can be aligned towards the purpose, ambition or aspiration (left side of *Figure 5*). Multiple authors have spoken about the need to create “optimization of effort” (Porter, 1996), or congruence (Galbraith, 2014; Nadler & Tushman, 1980; Peters & Waterman, 1982) in an organizational system to create as much efficiency as possible. Here, the organization moves towards a higher purpose, and the key operative variables stay the same. Trust and engagement with internal and external stakeholders can be maintained continuously, as the collective strategic conversation contains well known areas of development. Most organizations spend most of their time on the left side of *Figure 5*. This is where the bulk of the business regularly takes place. Most managers have made a career figuring out how to align the organization to its strategy, goal, visions, purpose or ambition.

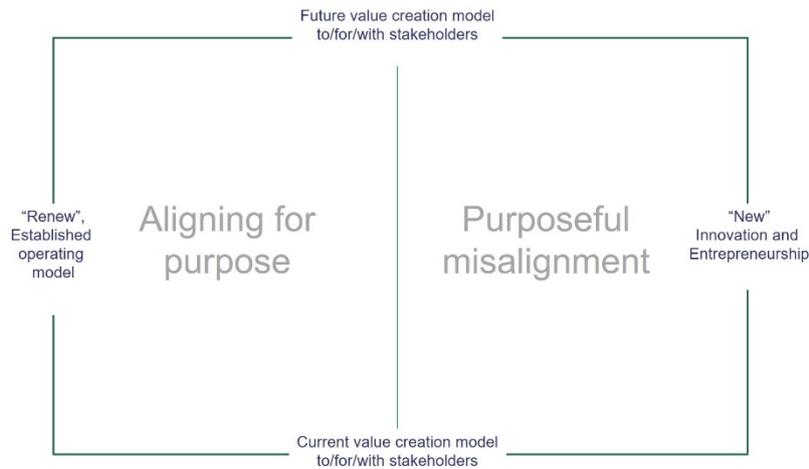


Figure 5 Two modes of organizational work – Alignment for Purpose and Purposeful Misalignment

By definition, new, innovative and entrepreneurial initiatives do not fit the established organizational system in one or more aspects. This means that when organizations transform, however, innovative and entrepreneurial activities disrupt the alignment of the established model. We argue that a strong sense of an organization-wide shared purpose can help to grant permission for purposefully misaligned work to be performed.

The organization can also work through its current relationships to deepen them together with their stakeholders, or focus on creating or recreating relationships. Different transformational challenges arise depending on the chosen path (Figure 6).

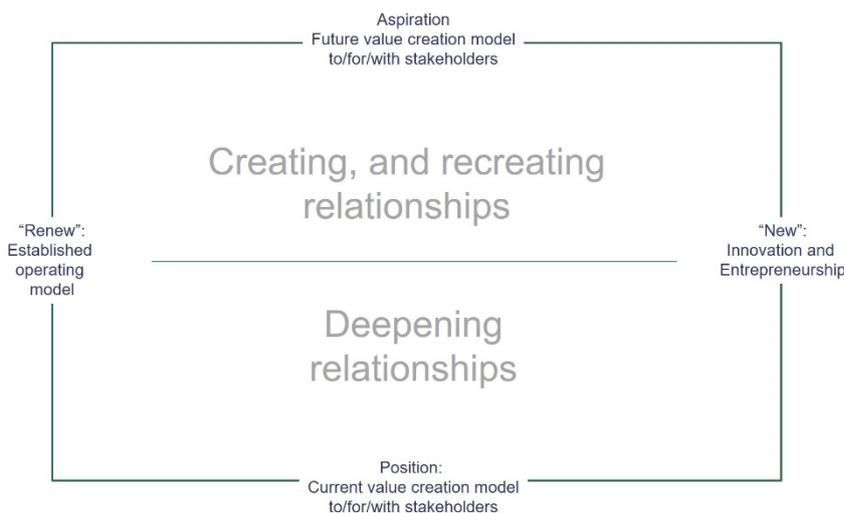


Figure 6 Two modes of handling relationships – Deepening or Creating/recreating relationships

There is a debate on whether transformational changes happen momentarily between periods of stability (Gersick, 1991; Romanelli & Tushman, 1994), or if change is constantly ongoing (Brown & Eisenhardt,

1997). Assuming that the latter view is correct, either while upheaval happens asymmetrically and scattered in time in different parts of the organization (which creates a necessity to constantly change the organizational system but for different reasons), or if upheaval is constant and stretches over time, managers and organizations need to organize to handle a continuous flow of innovations and entrepreneurial initiatives. This echoes the arguments by for example Tsoukas, Chia and Johansen (Johansen, 2017; Tsoukas & Chia, 2002) that organizations need to be designed for transformation, not for stability.

*Proposition 3: Continuous transformation through contextual ambidexterity creates a constant state where the organization both is “aligned to purpose” and “purposeful misaligned” and/or both “deepening relationships” and “creating/recreating relationships”. Successful transformations require mastery in managing this multiple state of being.*

### Driving transformation with a structural-relational perspective

As per above, a transformational agenda needs to include activities of direction (cf. engaging strategy processes), organizational realignment (cf. creating new activities; changing relationships between units), processual activities (cf. piloting, sharing innovations) and managerial activities (cf. learning to lead in a new environment). An organization may have activities in all four quadrants. Since they need to be managed differently, the important question is naturally how they become part of a transformation process.. In the case of contextual ambidexterity, activities need to encompass a both-and perspective. Thus, these activities need to allow for both the explorative and the exploitive work and manage the potential tensions arising. Managerial action during the transformation also needs to allow for the potential relational tensions coming from the reframing of the organizational ambition and its relation to the relationship ties that the organization has to customers and other stakeholders. Managing these tensions and perspectives in a transformation agenda is seemingly complex. We argue, however, that leaders attempting to lead transformation in a fast-moving, contemporary world need to embrace that complexity. To do so, however, requires management to handle paradoxical tensions (Fredberg, 2014; Smith et al., 2010; Tushman et al., 2010) to create a “simultaneous solve” with seemingly conflicting outcome (Beer et al., 2011, p 63). Cameron and Quinn (Cameron, 2008; Cameron, Quinn, DeGraff, & Thakor, 2006) have shown that the ability to cognitively grasp conflicting outcomes is related to higher levels of performance and change success. Gibson and Birkinshaw (2001) argue that this is “meta level capabilities”. Whereas most authors have focused on this ability as an individual skill, it is reasonable to assume that an organizational system can have similar qualities. Weak and rigid organizational systems are likely to only successfully manage few outcomes, are unable to encompass a broad diversity of minds, and will probably need complete and painful organizational restructuring when faced with tough transformational forces. The stronger, and more malleable, the organizational system, the more likely it is to do more things successfully, the more likely it is to benefit from polyphony of voices and

initiatives, and the easier it can handle the tensions created by misalignment. The strength and malleability is likely the result of a strong focus on common goals, or purpose, the ability to master the practices in Q1-4 as well as the transformational agenda towards a purpose on a higher level, as a higher ambition, or purpose, may create a higher-order solution to the tensions that organizations and their members are experiencing.

Previous research has shown that trust and engagement are important factors for both excelling in leveraging the established models (Davis, Schoorman, Mayer, & Tan, 2000) and for succeeding with innovation (Dougherty & Hardy, 1996; Ekvall, 1996). Activities to create trust have been suggested to release tension between the established business model and entrepreneurial activity (Fredberg & Pregmark, 2018). A higher ambition or shared purpose of the future value creation model to/for/with stakeholders has also been suggested to spur effectiveness (Senge, 1990) as well as innovation (Senge, Lichtenstein, Kaeufer, Bradbury, & Carroll, 2007). This paper suggests that these two components could play an important role also in releasing paradoxical tensions (Fredberg, 2014), managing contextual ambidexterity (Birkinshaw & Gibson, 2004; Fredberg & Pregmark, 2016; Fredberg & Pregmark, 2018; Smith et al., 2010) and managing corporate entrepreneurship initiatives (Fredberg & Pregmark, 2018).

Indeed, organizations that succeed with transformation in established structures are typically driven by a general higher ambition and use this to engage their people to a high extent in the development of strategic priorities below the executive team. Often, these organizations need to be contextually ambidextrous – thus pursuing explorative initiatives in the same structure as the exploitive work is done. To succeed, leaders need to provide a context, in which individuals can use their judgement when allocating efforts and engaging in renewing the current core and creating the new (Birkinshaw & Gibson, 2004). Such context is characterized by trust, stretch, routines and discipline. That way, a bottom-up approach can be applied, where individuals can engage in continuously redirect and reshape the organization.

Take for example the ongoing work of Hilti, where the organization has been renewing its business model in several different steps during the last 20 years. According to ex-CEO and chairman Pius Baschera, a key component was to constantly talk about the need to be entrepreneurial, installing incentive systems in favor of initiative taking, and discussing the higher ambition for the company. Or take the work of Swedish retail giant IKEA, that guided by the motto to “create a better everyday life for the many people” has been rebuilding and reinventing itself over and over again, using thorough practices to highly engage their workforce, with kept success over the tenure of several CEOs. Similarly, at SKF under Tom Johnstone, the idea of “reducing friction” led to a practice of lowering energy use in industry, which was translated into a set of principles called “SKF Care”. Here, business principles are being covered, together with environmental, community related and employee related principles. This was being complemented by a product program called BeyondZero that aims to reduce energy

consumption on the customer side. According to Johnstone, a key important aspect of the work with SKF Care and BeyondZero was the process in which employees in units all over the world took part in discussing what this meant for them, to be able to internalize them.

Purpose has been widely discussed in the academic literature as crucial for effective organizations. We argue that a shared purpose/ambition can be the most important component for organizations that needs to continuously transform. To align an organization to a purpose has been discussed as key when it comes to renewing and organization. It has also proven useful for innovation. However, its role to release tensions – on all levels in an organization – between renewing the core and creating the new has not yet been fully explored. Authors have worked on this agenda (Fiss & Zajac, 2006), but primarily looked upon it from a management perspective, where purpose could be a way for leaders to let go of control (Bonchek, 2013; 2016).

*Proposition 4. The strength and malleability of the organizational system determines whether an organization successfully can manage the tensions or not. The strength and malleability is the result of mastery in multiple transformation practices as well as a higher order solution to experienced paradoxes.*

## Conclusion

In this paper we argue that leaders need to find ways for the organization to engage in both the new and renew as well as in creating trust and meaning, both with the current value creation model, but perhaps most of all with the new value creation model to/for /with stakeholders. This could be interpreted as the need for an organization to be both in a constant mode of reshaping and a state of alignment. This has been discussed by authors such as Johansen (2017) and Lawrence et al. (2006). Johansen (2017) refer to this as shape shifting organizations. How to organize such a solution is yet to be further explored. This paper could be seen as an attempt to contribute to a discussion to advance a model for an organization with inherent abilities to continuously reshape itself.

This paper aims to continue a discussion on how to manage contextual ambidexterity (Birkinshaw & Gibson, 2004; Smith et al., 2010) and thereby succeed with transformation. We argue that the potential tension between developing the established models and innovating the new models could be released through creating a space characterized by a shared higher ambition as well as trust and engagement. This could also be tied to a discussion around paradoxical tensions that could be resolved by higher level solutions (Fredberg, 2014; Poole & Van de Ven, 1989; Smith et al., 2010). The suggestion in this paper is that the higher-level solution to this structural paradox between established and new models might be to install relational components such as a higher ambition and trust/engagement. We suggest that the combination of a structural and a relational perspective on transformation provides opportunity to study transformations, and that it can serve as a sense making tool for managers.

Our arguments are summarized in four propositions:

*Proposition 1: Both structural and relational tensions continuously exist in organizations, but in various degrees. Organizations actively use one relationship to relieve tensions in the other relationship.*

*Proposition 2: The greater the distance between what exists, and what can become, as measured by some factor, or factors or for example technology, purpose, market, resources, the harder it is for management to contain it in one organization*

*Proposition 3: Continuous transformation through contextual ambidexterity creates a constant dual state, where the organization both is “aligned to purpose” and “purposeful misaligned”. Successful transformations require mastery in managing this dual state*

*Proposition 4 The strength and malleability of the organizational system determines whether an organization successfully can manage the tensions or not. The strength and malleability are the result of mastery in multiple transformation practices as well as a clear higher order solution to experienced paradoxes (such as a higher ambition about the future value creation to/for/with stakeholders).*

For research, we aim to contribute with a model of thinking around organizational transformation, as something that progresses in structural and relational development processes.

For practicing managers, this conceptual paper could serve as frame for leaders who for various reasons do not see the possibility to structurally separate the established models from innovation and entrepreneurship.

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