LEADING STRATEGIC CHANGE UNDER UNCERTAINTY

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ABSTRACT

As firms increasingly face fast changing and uncertain environments and need to modify their strategic direction to enhance performance, they appear to operate in environments different from what scholars have historically theorized. We challenge a number of these questionable assumptions in the literature that considers managing strategic change as (i) knowable (rather than experimental); (ii) a unidirectional persuasion effort that emphasizes predictable outcomes (rather than a relational dialogue that emphasizes unpredictable and paradoxical outcomes); (iii) and a process that is primarily linear and cognitive (rather than a process that integrates temporal stages, cognition and emotion). We recast leading strategic change as an iterative process of two temporal stages. First, the *discovering stage* of finding a new strategic direction relies on team experiments to sense the changing environment and the new knowledge generated by such experiments. Second, the *diffusing stage* embeds successful experiments throughout the organization, which in aggregate shape the new strategic direction through modified organizational routines. Our research contributes to two important literatures: strategic change and behavioral strategy.

INTRODUCTION

A famous Russian proverb says that in life there are no known destinations, only directions. This is increasingly the reality of organizational life for individuals tasked with strategic change. They are expected to lead in an uncertain and fast-changing world. Yet as they chart the direction, the ultimate destination is frequently unknown. This uncertain reality helps explain why leading strategic change (SC), which has long occupied a central place in the literatures of strategic management and leadership, remains a challenge despite decades of research (e.g., Bartunek, Balogun, & Do, 2011; Gioia & Chittipeddi, 1991; Helfat et al., 2007).

SC implies a qualitative change in an organization's capabilities, resources and positions (Ginsberg, 1988). It is often accompanied by a fundamental change in the firm's philosophy, supported by concurrent shifts in other organizational dimensions such as structure, systems, and personnel, to preserve alignment (Mintzberg & Westley, 1992). SC not only causes a pervasive redistribution of resources and power, but also demands a "paradigm shift" that challenges members' basic assumptions about the organization (Bartunek, 1984) as well as their habits and loyalties. It is often undertaken to improve a firm's performance by allowing it to effectively adapt to a shifting, turbulent environment (Romanelli & Tushman, 1994; Zajac, Kraatz, & Bresser, 2000). At the same time, SC remains disruptive and risky (Singh, House, & Tucker, 1986).

Research on SC has been considerably enriched over the last decades with scholars adopting diverse theoretical perspectives, such as the structural context (e.g., Bower, 1970; Burgelman, 1983); cognitive sensemaking and sensegiving (e.g., Balogun & Johnson, 2004; Gioia & Chittipeddi, 1991); temporal pacing and sequencing (e.g., Amis, Slack, & Hinings, 2004; Huy, 2001); emotional response and management (e.g., Huy, 2002, 2011; Shin, Taylor, & Seo, 2012); and discourses and narratives (e.g., Sonenshein, 2010; Vaara & Monin, 2010). However, with this proliferation of perspectives, the literature seems to have become more fragmented and complex. Indeed, recent reviews of the literature consistently suggest that a more holistic theory on leading SC that would integrate diverse theoretical perspectives could inform the practice of leading SC (e.g., Bartunek et al., 2011; Bartunek & Woodman, 2015).

Recognizing the need to integrate more richly cognitive and emotional factors, as well as the inherent temporality of SC, we propose a new theory for leading SC in uncertain environments. In doing so, we draw from many literatures and in particular organizational learning (e.g., Argote, 2012; Crossan & Bedrow, 2003; March, 1991), team learning (e.g., Edmondson, 1999; Bresman, 2010), evolutionary theory (e.g., Kogut & Zander, 1993; Nelson & Winter, 2009), and management of paradoxes (e.g., Jay, 2013; Smith & Lewis, 2011; Smith & Tushman, 2005). Given the complexity of SC under conditions of uncertainty, our focus on cognition, emotion, and temporality allows us to dive deeply into the mechanisms that explain leadership of SC and how to do so more effectively.

A premise of our model is that organizations change through interactions between people who are typically situated within teams (referred to interchangeably as groups). Such team-led change relies on leadership at two levels to be successful. First, senior teams exercise *guiding* leadership by which they help set the context that allows front-line teams to operate in the service of successful SC. It also involves engaging in a dialogue with front-line teams to select suitable experiments. Second, front-line teams exercise *innovative* leadership by which they help select experiments, run them effectively, and then implement successful ones. Front-line teams consist of organizational members with a finger on the pulse of the variegated and fast-changing environment in which the organization operates. They include teams such as product development teams, marketing teams, business development teams, and local subsidiary management teams. Strategic change and innovation scholars have consistently shown how a firm's performance—especially in an uncertain, dynamic environment—is a function of its propensity to rely on front-line teams to experiment with new products, markets or processes to

renew its capabilities, innovate continuously and escape rigidity (Brown & Eisenhardt, 1997; Leonard-Barton, 1992).

In brief, the model of leading SC that we introduce in the paper is construed as a continuous iteration between two temporal stages (the model is summarized in Figure 1). First, in the *discovering* stage, front-line teams experiment with various new ideas to generate the required competences and knowledge to shape a new proposed strategic direction. This new strategic direction will then be embedded in new or modified organizational routines during the second, *diffusing* stage. This model contrasts with prevailing theories of SC in three important ways. It views SC as experimental (rather than knowable); it focuses on relational dialogue and unpredictable outcomes (rather than unidirectional persuasion and predictable outcomes); and it describes a process that integrates temporal stages, cognition, and emotions (rather than a process that is linear and cognitive).

Insert Figure 1 about here

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Figure 1: Model of Leading Strategic Change Under Uncertainty

STAGE 1. DISCOVERING

STAGE 2. DIFFUSING

Process

I – Readying for Experiments

II – Conducting and Learning From Experiments

III - Framing a New Strategic Direction

I – Building Receptivity to the Proposed New Strategic Direction

II – Mobilizing to Implement the New Strategic Direction

III – Learning From Interim Outcomes

Enabling Factors

- Creating a Climate of Respectful Emotional Authenticity
- Preparing for Paradoxical Thinking (Dominant Cognitive State)
- Fostering Emotional Ambivalence (Dominant Emotional State)

- Maintaining and Broadening Respectful Emotional Authenticity
- Clarifying Thinking (Dominant Cognitive State)
- Evoking Emotional Engagement (Dominant Emotional State)