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Mastering Strategic Renewal

Mobilising Renewal Journeys in Multi-unit Firms

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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 organisations 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 organisations 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

How do large multi-unit firms renew? How do they reconcile the conflicting forces for change and stability? How do they

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respond and learn at the same time as promoting order and control among their units? In many industries there are powerful forces towards change—such as the arrival of new technologies, new competition, and globalisation—which necessitate exploration. On the other hand there are short-term competitive forces demanding stability, such as the need to exploit what the organisation has and avoid risky unproven projects.

These conflicting forces are clearly evident in European financial services industries. The industry is globalising with a converging of incumbent players (such as banks and insurance companies) and new entrants, particularly telecommunications firms and large retailers. Most large well-established financial firms recognise that strategic action is required on all fronts. Considering the changing landscape of the financial services sector,[1] the need for strategic renewal is higher than ever before.

This paper describes four idealised journeys of renewal, which managers in multi-unit firms can use as a guide to their thinking. Two of these journeys are clearly associated with what many banks are doing today, and two represent more clearly possible patterns for tomorrow. The "ideals for tomorrow" have already been adopted by leading-edge organisations in other fast-moving turbulent environments such as silicon chip making. For each journey, we will define the appropriate managerial roles, specify the knowledge design, and elaborate on the pacing of renewal in terms of risk, speed, and competitive positioning. We also show the intellectual and organisational antecedents for each journey, and with this analysis give insight into the rationale behind successful journey selection.

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Rethinking strategic renewal: a co-evolutionary perspective

Strategic renewal can be broadly defined as the activities a firm undertakes to alter its path dependence. Important parameters of a journey of renewal include: the behaviour of managers at each level of the organisation in response to each other (top-down or bottom-up); the way they view investing for tomorrow versus milking profits today (exploration versus exploitation); and the way in which they share knowledge with each other across organisation boundaries (intra-organisation learning). Until now managerial theories on renewal consider either a purely *selective* or *adaptive* perspective.[2] *Selection* perspectives view renewal as highly restricted by resource scarcity, convergence to industry norms, and structural inertia. In other words, the strategic activities of successful firms are very similar and limited to strengthening and exploiting their existing core competencies. By contrast, *adaptation* perspectives suggest that firms can and do change, overcoming their rigidities. That is, successful firms learn to behave differently and explore new competencies.

In this paper, we investigate journeys of strategic renewal of multi-unit firms by considering environmental selection *jointly* with managerial adaptation, *viewing strategic renewal as an ongo-*

ing journey instead of a discrete shift from one state to another. Combining several degrees of selection and adaptation allows us to develop a coherent managerial framework of *four idealised renewal journeys*, and, in doing so, to provide answers to the following questions:

- When is renewal a selection and/or an adaptation process?
- What roles do managers at the corporate and unit level play in these renewal journeys?
- How do these roles fit with the environment and the need to respond to turbulence?
- What are the benefits and risks of each ideal type?

In this paper, we consider the renewal path of units (and hence the whole firm) that depend on the interactions between top management and front-line or business unit managers. We look at three levels of analysis in the journeys of renewal—the *environment*, the headquarters or *top management* of the multi-unit firm, and the *front-line* or business unit managers—and at how they co-evolve on the journey. Using March's idea of exploration-exploitation as a metric for progress, we see strategic renewal journeys as multi-level co-evolutionary processes taking place over time and leading to adaptations designed to align competencies with the environment and increase competitive advantage.

For academic readers, we summarise the basis for our thinking in Table 1. For the selection journeys, we mention the key contributions of population ecology, institutional theory, evolutionary theory and the resource-based view. On the side of adaptation we mention dynamic capability theory, behavioural and learning theories, and theories of strategic choice.[3]

We move beyond simple adaptation-selection debates to suggest that there is scope for more pluralism. Instead of focusing on *naïve* selection or pure adaptation processes, we consider the *joint outcomes* of managerial adaptation and environmental selection, viewing adaptation and selection not as wholly opposed forces but essentially interrelated as if opposite poles of a continuum. Our approach draws heavily on the ideas of co-evolution that are now gaining ground in the academic literature, but have not yet made their way sufficiently into managerial practice. This co-evolutionary approach stresses the possibility of multiple paths, the central idea of this paper.

We identify *four ideal renewal journeys*, labelling them *Emergent*, *Directed*, *Facilitated*, and *Transformational*. Each ideal journey can be related to the academic ideas of selection, adaptation and co-evolution. Each is relevant to the multi-unit firms, but offers different approaches to managing the interactions between the front-line and top management, and between the overall firm and its environment. Although others have proposed many

Table 1. Theories of Selection versus Adaptation Journeys. Source: Adapted from Lewin and Volberda (1999)

Theories on Journeys of Strategic Renewal	
Mainly Selection Journeys	**Mainly Adaptation Journeys**
• *Population ecology*: Renewal journeys are based on and limited to accumulation of structural and procedural baggage through retention processes (Hannan and Freeman, 1977, 1984; Aldrich and Pfeffer, 1976).	• *Dynamic capability theory*: Renewal journeys are promoted by firms' latent abilities to renew, augment, and adapt its core competence over time (Teece et al., 1997).
• *Institutional theory*: Renewal journeys result from coercive, normative, and mimetic isomorphism. Renewal is achieved through maintaining congruence with shifting industry norms and shared logics (DiMaggio and Powell, 1983; Greenwood and Hinings, 1996).	• *Behavioural theory of the firm*: Renewal journeys are determined primarily by the availability and control of organisation slack and by the strategic intent to allocate slack to innovation (Cyert and March, 1963).
• *Evolutionary theory*: Renewal journeys are based on proliferation of routines and reinforce incremental improvements (Nelson and Winter, 1982)	• *Learning theories*: Renewal journeys as a process of alignment of firm and environment based on unique skills for learning, unlearning, or relearning (Argyris and Schön, 1978; Fiol and Lyles, 1985; Huber 1991).
• *Resource-based theory*: Renewal journeys are converging trajectories of exploitation of unique core competencies (Penrose, 1959; Learned et al., 1969; Wernerfelt, 1984).	• *Strategic choice theories*: Renewal journeys as a dynamic process subject to managerial action and environmental forces (Child, 1972, 1997; Hrebiniak and Joyce, 1985; Miles and Snow, 1978).

typologies for strategic change,[4] we suggest ours moves knowledge further forward. We go some way to connect managerial action with the important concepts of variation, selection and adaptation. By doing this, we scope out a more rigorous approach to the managerial renewal agenda. The key aspects of these four ideal types—sources of variation, locus of unit selection, exploitation/exploration balance, knowledge design, and competitive positioning—are summarised in Table 2.

The emergent renewal journey: follow the market

The ideal emergent journey of renewal is rooted in the assumption that some managers believe that they should be essentially outwardly orientated or passive, their role being to amplify market forces and market signals for the benefit of the unit managers. For example, top managers set their business units' targets based on profits, rather than internal processes such as speed of new

Table 2. Idealised Renewal Journeys of Multi-Unit Firms. Theoretical differences regarding (1) source of variation; (2) locus of unit selection; (3) exploitation/exploration balance; (4) knowledge design; (5) competitive positioning

	Top Management is PASSIVE with respect to Environment	Top Management is ACTIVE with respect to Environment
Frontline and Middle Management are PASSIVE (Stable competition)	**Emergent Renewal** 1. Market 2. External selection environment 3. Unbalanced: strong bias towards exploitation 4. Market knows best: No organisational knowledge integration (less connected units) 5. Following industry rules	**Directed Renewal** 1. Hierarchy 2. Top management 3. Balanced: Matching exploitative and explorative units 4. Top management knows best and orchestrates organisational knowledge integration (reasonably coupled units) 5. Adapting to industry rules
Frontline and Middle Management are ACTIVE (Hypercompetition)	**Facilitated Renewal** 1. Co-evolution 2. Internal selection environment 3. Balanced: exploitative and explorative units level each other out 4. Front and middle management challenge "market knows best" and orchestrate organisational knowledge integration (loosely connected units) 5. Influencing industry rules	**Transformational Renewal** 1. Shared sense-making 2. Top-, middle and front-line management 3. Unbalanced: from strong exploitation towards strong exploration and vice versa 4. Organisation knows best: high organisational knowledge integration (tightly coupled units) 5. Changing industry rules

product development, and then typically reward their middle and unit managers with bonuses closely linked to these targets. ING bank in the early 1990s matched this ideal type.

The emergent journey is the consequence of this reactive market approach to variation, selection and retention. Regarding variation, typically top managers do not encourage unit managers to engage in extensive search for new ideas and new business models: rather they stress the risks of straying outside the competence boundaries. If variation is required, top management undertakes this task by purchasing units from other organisations or from the capital market. ING's acquisition of Barings Bank matches this behaviour. The top management perceived a market opportunity to purchase a good quality organisation for a nominal sum. According to top management, such a move did not come from below, but rather from entrepreneurial behaviour at their level. At the lower levels, many of the units within ING during the early 1990s were conservative with respect to innovation—unit managers being more concerned with today than tomorrow.

Effective co-ordination does not easily take place without active management

Expansion and contraction of existing businesses (called selection and adaptation) are undertaken in a similar spirit that is essentially outward looking or market-orientated. Units will be selected "in" or "out" by a process that is typically profit-driven: those that cannot yield a return above a benchmark are sold or closed. Barclays' behaviour during the 1990s is indicative of an emergent renewal journey. In the last decade, it shed thousands of jobs, scaled down its investment banking activities, and avoided splurging on risks.[5] Barclays is accompanied by many other UK banks that have shifted their focus from viewing branches as a collective asset, and now assess each branch on a stand-alone basis, closing branches that do not meet profits targets.

Most large firms face pressures to create synergies between units. In the emergent journey, the behaviour of top management is typically paradoxical. For example, in the UK in the late 1980s many banks took over estate agents, and there were pressures for house sales agents to be involved in selling add-on financial services. Yet top management did not fundamentally alter the organisations' processes or remuneration measurement systems to make the synergies happen faster, and instead let units organise the synergies in an organic fashion. As a result, most firms found that despite profit-related incentives, the hoped-for synergies did not materialise. This is no surprise to management scholars, who have long argued that effective co-ordination across functional and organisational boundaries does not easily take place without active management.[6] Such intervention goes against the outward-looking philosophy, top management typically believing that managerial intervention will degenerate into managerial meddling and disruption.

Where is creativity in this journey? Of course front-line managers will be brimming with ideas, but they are encouraged to think within the business. If they create new units these are typically sold rather than developed. However top managers see themselves as entrepreneurs who are free to range over a wide territory. They are often active in the market for acquisitions and sales (as mentioned above) and, taking a trader's attitude, they typically buy and sell elements of their portfolio in reaction to or anticipation of market trends. They may buy-in units that are in the early stages of development. Long-run success depends on an active market for new units, which is more common in Anglo-Saxon than traditional European or emerging economies.

The emergent journey has low administrative costs,[7] and is common among many high-performing conglomerates in stable mature environments. Units often perform very well in the short term, selecting carefully among their capabilities to achieve maximal returns. Failure has clear sanctions: when a division or unit is "selected-out", it is closed, sold, or finds its resources withdrawn. ICI, the UK chemical giant, has recently been following this philosophy in the way it has reshaped its portfolio of businesses.

The emergent journey is usually defended in terms of its suitability to dealing with mature slow-moving environments, with little evidence of synergies between units that cannot be done through the market. The benefit of the emergent approach is in avoiding the myopia of being wedded to particular ideas or notions; a trap that mature firms can fall into even in mature environments. Historically many financial service firms such as Barclays and ING have adopted this approach when the industry was stable: it is doubtful if this journey is so suited to volatile environments where there is a need to build synergies.

The directed renewal journey: top management should be in control

In directed renewal journeys, top managers believe they have some power over their environment and that strategy making in large complex firms involves multiple levels of management in a more co-evolutionary manner. In this perspective, renewal journeys are driven by a priori managerial intentions cascading down. A key role for top management is to provide the purpose or strategic intent in guiding journeys of renewal of multi-unit firms. As a result of top-down strategy making, multi-unit firms make their strategy changes deliberately, adapting to changes in their competitive environment, with top management explicitly managing the balance of exploration and exploitation by bringing in new competencies to some units while utilising well-developed competencies in others.

The directed renewal journey model assumes that the multi-unit firm is purposeful and adaptive. Top management sets goals, scans the environments, searches for alternatives, chooses one, and monitors the process. In this ongoing sequence, "strategy formulation" precedes "strategy implementation", with ideally, management in the role of a "rational actor" issuing directives. It requires an exhaustive analysis before action is taken, and that management holds a considerable amount of power and has access to complete information. For successful implementation, management must orchestrate local rejuvenation, diffusion among units and push units towards goal achievement.

This directive approach of top management fits with the prescriptions of classical administrative theorists[8] It also matches the perspective of Prahalad and Hamel,[9] who argue that strategic renewal depends on the strategic intent of the CEO or corporate management and should be based on superior industry foresight. O'Dell and Grayson[10] point out that with these situations, senior management has to commit resources to make things happen, and to become actively involved in the process: they cite Chevron and Rank Xerox, both associated with a hierarchical style, and the typically tightly controlled multinational also falls into this category.

Directed journeys of renewal have been very evident in recently privatised utilities in Europe. Top management typically hires outside consultants to fulfil their responsibility of teaching the multi-unit firm the new competitive rules set by the industry regulator. There is little opportunity for middle management to learn, as they have to conform to new rules rather than create them.[11] During the first half of the 1990s, Rabobank fits this journey. Top management in this co-operative bank group orchestrated organisational change processes that enabled knowledge-integration among loosely coupled units. Top management deliberately aimed at becoming a completely customer-driven organisation. The period of Lloyds/TSB under Sir Brian Pitman also resembles the ideal-type directed renewal journey. His industry foresight resulted in Lloyds/TSB growing from the smallest of the UK clearing banks into the most successful and profitable financial player in the UK. His influence was so strong that Lloyds' managers were prone to make decisions on what they thought Pitman might think, instead of relying on their own judgement.[12]

Top management argues that careful co-ordination is vital

Directed renewal typically results in interference in the way units are structured, and the way they allocate resources internally. Top management may have a preferred organisation design (such as the matrix) and a capital allocation rule (x% to new products, y% to improving processes). Top management typically argues that highly integrated firms need direction and hierarchy for regulation of internal change and that careful co-ordination is vital to avoid different units going off in different directions. The risk of "paralysis by analysis" is always present, making this journey difficult in dynamic, rapidly changing environments. Directed renewal appears to be particularly suited to firms experiencing steady growth or decline, where the benefits of hierarchy in terms of formal planning and control can be fully realised.

All of the above suggests that directed journeys of renewal are less suitable for organisations facing permanent turbulence, where boundaries between markets and units are being broken down. Although such directed trajectories can be very speedy, they often cannot cope with the diversity of knowledge required for variation, adaptation and selection and for the pressures of integration.

These first two ideals represent journeys that have been typical in the traditional managerial history of European financial services firms, fitting in easily with the established managerial mindset and experience of top management in this environment. Our third and fourth journeys are much less common in mature environments, and represent significant challenges to traditional management thinking. What to do in situations when following the market is not enough or top management is not in control? Such more hypercompetitive landscapes require front-line and middle management to take a more active stand. They are more complex, co-evolutionary and subtle approaches to management.

The facilitated renewal journey: increase variety of renewal initiatives

In the facilitated renewal journey lower levels of management are active in the choices for and mechanics of renewal. Top management's role is to create a strategic context for nurturing and selecting promising renewal initiatives by ensuring the maximum incentives for front-line initiative. The logic of this journey is that front-line managers have the most current knowledge and expertise and are closer to the routines and sources of information critical to innovative outcomes, and that top management can act as retrospective legitimiser[13] or judge and arbiter in support of lower-level initiatives. Compared with the emergent journey, in this type of renewal journey multi-unit firms are likely to show a more balanced portfolio of units in terms of exploitation units and exploration units (see Table 2).

In the facilitated renewal journey, top management moves away from having profits targets and market share as being the sole objectives for measurement, and takes a more balanced internal–external perspective adding factors such as the frequency of new product and service introduction, and the operation of goals such as the share of revenues from new ideas. In addition, top management may intervene in guiding the structure of units, suggesting or directing forms of organising. The establishment of the branchless Prudential bank in 1995 was organised along the lines of this journey. This bank was built by the people who were going to run it. Because of the desire for flexibility, planning was done step by step instead of following a masterplan. The co-involvement of the future managers and employees, and the project's "no-blame" and forward-looking culture helped ensure its success.[14]

Another well-documented example of facilitated renewal journeys where top management encourages selecting out and lower management handles new unit creation can be found in Burgelman's study[15] of the reshaping of Intel's business in the 1980s. He shows that it was not the corporate strategy but the "internal selection environment" that caused a shift from memory chips towards the microprocessor business. He conjectures that the higher the correspondence between the internal selection criteria (that is set by the top management) and external selection pressures (how the industry segments are evolving and how technology is changing), the better the selection mechanism guarantees the co-evolution of a multi-unit firm's competencies with the sources of competitive advantage of the industry.

In facilitated renewal journeys top managers look for variety generators to facilitate venture creation, which parallels or anticipates older more mature activities being dropped. At the simplest level, we can think of isolating a flexible unit from the rigid operating core. This principle was applied at Citibank's Kallithea branch in Greece, also called the "banking laboratory" by Citibank executives. This branch was used to develop the US bank's world-wide consumer operations, and has pioneered new electronic services such as 24-hour telephone banking and paperless deposits and withdrawals.[16] IBM also isolated a unit when the IBM PC was developed, as the mainframe logic was strongly preserved in IBM's culture and prevented entry into the new PC market. While at first IBM was very successful with this isolation strategy, it found that transferring these new capabilities from the flexible mode to the rigid operating core was very difficult. IBM could not exploit these capabilities in its operating core because it lacked communication channels and common mental frames. Similarly, Eastman Kodak, Philips, and Xerox have had only modest success from their internal venturing and new business development programs.

These organisations appear to be in a perpetual state of adaptation

Stronger variety generators involve the continuous splitting of groups into separate units. Hewlett Packard, Johnson & Johnson, and Origin are examples of firms that have developed mechanisms to set up new units. This encourages entrepreneurs to pursue their ideas in separate divisions, while the older, more established units provide continuity and stability. Overall, these organisations appear to be in a perpetual stage of adaptation, never really rigid or planned as long as new units are being regularly created from within. Their internal selection mechanisms (e.g., 70 per cent of HP's sales have to be represented by products introduced or substantially modified in the past two years) bring costs, such as the difficulty of integrating the new ideas back into the old organisation. But they also bring some benefits, as new ideas are typically insulated from the inertia of the centre, and have the possibility to flourish without being suffocated.

In comparison with emergent renewal, facilitated renewal journeys allow much more potential for learning across the firm's units. Yet the thinness of the top management group and the lack of significant resources devoted to moving knowledge can make intra-corporate learning more limited than in other journeys. While the facilitated journey is far more difficult for top management to handle, it has the potential to yield far greater results when the environment is turbulent and there is a need for co-ordination between units. Teece et al.[17] argue that organisations driven by strong internal selection are typically narrowly diversified and can operate effectively in rapidly moving trajectories, as technological inter-dependence encourages units into knowledge sharing without the need for direction from top management. However, top management's lack of direct control over the organisation makes it difficult for the multi-unit firm to engage in any large-scale developments that require central co-ordination or synergy across units. Facilitated renewal is therefore appropriate in highly complex and dynamic markets where deliberate strategy of any kind becomes difficult.

The transformational renewal journey: mobilise a company-wide renewal process

In the transformational renewal journey, top management still believes that it can influence the environment, but also believes in working closely with the lower levels. Involvement of front-line managers is seen as essential to the renewal process, and, in this sense, the journey can be described as holistic, with a close link between collective cognitions and the process of strategic renewal.[18] The question of what drives renewal thus depends on the socially constructed reality of organisational participants, a reality defined through collective sense-making in which perceptions are affirmed, modified, or replaced according to their apparent congruence with the perceptions of others and other levels. Weick[19] described this sense making as *enactment*, members of organisations actively forming or enacting their environment through their social interaction. A pattern of enactment establishes the foundation of the firm's organised reality, which in turn shapes future enactments. Renewal in this perspective is driven by the development of shared strategic schemas or collective frames of reference.[20] However, such shared strategic schemas are difficult to change and may delay necessary renewal in strategy, leading to decreased performance or even failure.

Calori and Baden-Fuller[21] described in some detail the change processes at Novotel, one of the largest hotel chains in the world. This organisation had clearly followed the transformational path in the way it had managed renewal. The processes were led from the top, but involved very considerable involvement from all levels, not just to participate in the changes, but also to shape the direction of the process. This involvement improved the quality of the result and increased the speed of the process.

Transformational renewal journeys are associated with significant unlearning, new ways of thinking and new mindsets, different paths of technology, and particular kinds of corporate entrepreneurship. Corporate entrepreneurship literature suggests this journey is a holistic exercise that eventually involves the whole business: requiring systemic rather than piecemeal changes in the multi-unit firm. This change may cascade through the organisation, and it is quite clear that organisations can move in cycles between one extreme (exploitation) to the other (exploration), with periods of systemic exploration when the organisation is renewing and changing its skills and competencies.[22] This renewal journey therefore is likely to be characterised by an imbalance between exploration and exploitation (see Table 2).

The journey of transformational renewal is transparent when applied to the small unit, especially the start-up. There, a single entrepreneur is seen as the driving force of the innovation process imbuing a spirit into the whole enterprise, collecting and motivating like-minded individuals. The lack of tight commitments and relatively low sunk costs enable these units to undertake radical change easily.

Recently, considerable attention has been paid to the successful regeneration of mature units, or whole complex organisations, especially those in a crisis or facing decline. Here the literature has generally pointed to the existence of a chief executive, or team that has championed renewal. Kotter and Heskett[23] provide a discussion of systemic change processes in British Airways and other organisations. Also, Whittington et al.[24] found in a European panel study those large firms able to realise systemic and complementary changes enjoyed high performance.

In these cases, it is clear that the top management team is led by a chief executive who is much more than an administrator; he or she is a transformational leader who drives the process from the front but involves others and brings them along too (see Table 2). Transformational renewal demands that the whole organisation must be involved if radical change encompassing new technologies and new processes is to be accomplished. For the multi-unit firm this journey is quite different from directed renewal. Besides transformational leadership, it emphasises the importance of the middle manager as an entrepreneur who connects the various levels of the organisation. This is not the case of one level driving another, but of team-working among levels and functions.[25] Collective sense-making is an important requirement for knowledge integration processes as highlighted by Nonaka and Takeuchi[26] and Grant,[27] and is a key component of the integrative processes that seek to maximise organisation learning.

Transformational renewal journeys are often associated with narrowly defined technological trajectories, for example, large multinational firms, where all the divisions are in a closely related business and the environment is evolutionary but punctuated by occasional radical shifts. In such cases the importance of intra-organisation learning is often high (transmitting best practice from one country to another). When occasional radical shifts are necessary, the firm can rise to the challenge.

Changing the firm's destiny: development journeys of financial firms

Our four journeys of renewal differ fundamentally, each implying a different solution to the tensions between top, middle and front-line management. Each journey is based on different theoretical assumptions about the source of variation (market, co-evolution, hierarchy, collective sense making), the locus of unit selection (external selection, internal selection, top management intentions, shared schemas), the mix of exploration and exploitation activities (balanced, unbalanced), the level of knowledge integration (less-connected to tightly-coupled units) and competitive positioning (following to changing industry rules). Although these are ideal journeys—"pure" examples of the typical components of a specific type of each journey—understanding their structures and implications and appreciating the differences between them can be a potent source of understanding for managers of firms in the real world, whose journey of renewal may be hybrid forms of two or more of the ideals. This is illustrated in the CEO commentary on strategic renewal at Rabobank in this issue. Another reason why firms may be hard to categorise is that they may move through different periods, each characterised by a different renewal journey. Such meta or development journeys of renewal form part of the portfolio of strategic choice.

Consider GE's corporate revitalisation guided by its CEO Jack Welch, Philips' corporate change initiated by Jan Timmer and further accelerated by Cor Boonstra, or Novotel's renewal led by Pellison. The starting point of these companies seemed to be a period of stasis where both top and front-line managers had been passive and where the financial community was threatening to impose market selection. New CEOs arrived and pushed directed renewal. Typically they began with a process of competence development led by the CEO, which introduced new concepts, communicated them in an understandable manner through the use of metaphors and analogies, and reiterated them repeatedly. Consequently, new capabilities such as speed, simplicity, and market responsiveness were passed down the organisation almost as an order or instruction to be followed. Following these periods of top-down directed renewal, the organisations have moved on to another period, where top management shows more transformational leadership and other management levels are involved in order to create system-wide change (transformational renewal). Finally, top management becomes more of an orchestrator, facilitating decentralised entrepreneurship, and the journey is more like that of facilitated renewal.

Firms may move through different periods, each characterised by a different renewal journey

As was pointed out earlier, for many financial service firms inertia prevents the renewal journey being altered in a fundamental manner. Although firms cannot make such transitions very often, we argue that it is indeed possible. We already described that the Dutch Rabobank Group followed a directed renewal journey in the first half of the 1990s. Top management aimed to orchestrate the integration of organisational knowledge. The organisational units were not very tightly connected. As the Rabobank Group grew in size due to acquisitions, such as the co-operative insurer Interpolis in 1990, it came to resemble a large centralised organisation. Organisational units began to complain that the corporate centre, Rabobank Nederland, became too powerful by imposing its product-driven strategies upon organisational units such as the local banks. In the second half of the 1990s, Rabobank Group tried to change its renewal journey towards transformational renewal (see Table 3). In 1996, the predecessor of the present CEO pointed out:

> The hierarchical, pyramidal structure, with its tendency to uniformity, belongs to the past.… Traditional organisation

Table 3. Development Journeys of Financial Firms

	Top Management is PASSIVE with respect to Environment	**Top Management is ACTIVE with respect to Environment**
Frontline and Middle Management are PASSIVE (Stable competition)	Emergent Renewal ↓ ING	Directed Renewal ↓ Rabobank
Frontline and Middle Management are ACTIVE (Hypercompetition)	Facilitated Renewal	Transformational Renewal

> concepts start from concentration of knowledge at the top, to be directed downwards via the hierarchy. Owing to the distribution of knowledge it has become impossible and unnecessary to manage organisations from the top.... Hence, it is better to think in terms of the network concept. The organisation as a system of relations between people, who collectively want to realise a shared idea.[28]

This transformational renewal was further accelerated through the corporate-wide decision-making process to revitalise the co-operative foundation of the Rabobank which resulted in a new ambition statement and strategic orientation in 1999. According to Rabobank's Annual Report of 1999, a top priority was the creation of synergy between the organisational units, and a more decentralised management approach resulting in a reduction of the size of the corporate centre. Furthermore, it was decided that the network character aimed at in the new ambition statement, was better captured by the new name "Rabobank Group" instead of the previous name "Rabobank organisation".

ING also altered its dominant renewal journey during the last decade, from merely emergent towards a facilitated renewal journey (see Table 3). Due to large-scale merger and acquisition processes, ING emerged in the beginning of 1990s as an all-finance corporation consisting of a collection of unconnected divisions (Postbank, ING Bank, Nationale Nederlanden) each subject to its own external market forces. ING's top management only stressed financial performance criteria and did not actively redesign its multiple divisions. During that period ING clearly followed the emergent renewal journey. However, during the second half of the last decade and in particular in 1999 and 2000, top management took a much more active attitude in creating an internal selection environment reflecting external market forces (quasi-selection) and the managers of the organisational units had a more active role in terms of stimulating knowledge integration among formerly loosely connected units. At present ING's renewal journey is in transition from emergent renewal towards facilitated renewal. This renewal journey is rather exceptional compared with most of the major European banks. Citibank is one of the few large international incumbents that operates in this mode. As Kelly and Allison[29] pointed out in their effort to use complexity science to explain the developments of Citibank: "Everyone at Citibank talked of the externally focused competitive atmosphere, which had internally emerged from the people and their patterns of interaction." Furthermore, they observed co-evolution at micro- and macro-levels and both a clear strategic intent and room for exploration at the unit level within Citibank.

Summary and discussion

Organisations are not static, and often resist attempts at simple categorisation. While journeys of renewal in practice are highly idiosyncratic, we used idealised models of journeys as one of the approaches to this the problem. These idealised journeys compartmentalise phenomena of renewal of multi-unit firms into idealised paths that are simple enough for managerial, organisational and knowledge attributes to apply. In particular, we have posed four basic journeys: market selection pressures propelling emergent renewal journeys, management intentions pushing directed renewal journeys, deliberate variety generation and internal selection driving facilitated renewal journeys, and collective sense-making allowing transformational renewal journeys. We discussed each of these four journeys in terms of theoretical differences regarding management intentionality, source of variation, locus of unit selection, the exploitation/exploration balance, knowledge design and competitive positioning (see Table 2). Based on this assessment we discussed why and how firms move between renewal journeys over time (see Table 3).

Journeys of the future

Is one of these idealised journeys more successful than the other journeys of renewal? The *emergent renewal* journey represents an extreme, where top management amplifies market pressures, often enforcing more rigorous standards than would otherwise be imposed. There is no doubt that for substantial periods of time, financial firms have done very well by adopting such emergent journeys.

In contrast, in *transformational renewal* where the front-line managers are working most intensely with top managers, learning is intense and diversity among levels and groups leads to learning, exploration and rejuvenation. Here, top management sees its role as overcoming market forces of selection, forcing fast-track adaptive and learning behaviour. As a development model it sounds ideal, but the resulting path appears to have drawbacks. We suggest it is poor at dealing with technological discontinuities and the journey may not sustain over time, because of the supreme effort required for all the parties involved. The firm lurches from states of high exploration to

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high exploitation, placing severe demands on managerial capacity.

On the other hand, scholars specialised in complexity theory[30] provide valuable evidence that *facilitated renewal* may be very effective, and could dominate the future landscape. Renewal proceeds most rapidly, they argue, when top management effects small probes in a characteristic rhythm, recombining the portfolio of units, so that novelty is deliberately generated without destroying the best elements of past experience. Top management operates on unit managers indirectly, taking advantage of the tendency for myriad local interactions to self-organise into a coherent pattern. Rather than shaping the pattern that constitutes strategic renewal (directed renewal), managers shape the context within which it emerges, speeding up co-evolutionary processes.

New empirical research in the financial services industry

For the academic researcher, our paper has important pointers. Are all journeys viable or do some dominate? One reason for our caution is the paucity of good empirical work. Cross-sectional survey-based studies and economic time series modelling dominate by far the empirical research landscape.[2] Until now, there have been few very long-run analyses, yet they often yield surprising results.[31] We clearly need more long-term studies of how industries and firms co-evolve and emerge over very long periods of time where several of the journeys of renewal can be compared, not just two at a time.[32] Moreover, large-scale longitudinal international research programmes such as NOFIA (New Organisation Forms in the Information Age) or INNFORM (Innovative Forms of Organising in the 21st century) may be helpful vehicles to create data sources for studying journeys of strategic renewal.[33]

In this issue's collection of papers on renewal in Financial Services we take a multi-country approach. Most of the existing research on renewal however takes a single country perspective. In this issue, we answer if and how financial institutions change in a European context where there is governmental and regulatory influence as well as changing technology and consumer preferences. Our approach is simultaneously longitudinal and cross-sectional. The cross-sectional nature is captured by our examination of banks and insurance companies in many European countries: France, Italy, The Netherlands, Sweden, and the UK. These will be examined historically and contemporaneously giving a longitudinal perspective.

Broadening managerial choice

Finally, our journeys point to important lessons for practising managers and those who teach them. By setting up the benchmark of "selection" where managers are seen as passive actors driven by path dependency, we point out that there are real choices that managers can make, explicitly or implicitly. These choices include four different ideal journeys for renewing the multi-unit firm. Each of these is distinctive from the others in having different benefits and costs. Each choice may differ in efficacy according to environmental stimuli, and each implies differences in roles for top and front-line management. We offer potential insights into some of the consequences of these choices: by doing so, we hope to help managers in mastering strategic renewal and mobilising change.

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