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THE APPLICATION OF STRATEGIC RENEWAL MECHANISMS IN THE PROCESS OF ORGANISATIONAL BOUNDARY MANAGEMENT

Summary: The aim of this paper is to discuss the possibilities of applying strategic renewal mechanisms in the process of organisational boundary management. The starting point of the article is a presentation of the fundamental assumptions in the conception of organisational boundaries followed by a presentation of the mechanisms and models of strategic renewal, on the basis of which the author then formulates his own proposal for a model of the strategic organisational boundary renewal process.

Keywords: strategic renewal of organisations, models of strategic renewal, organisational boundaries.

1. Introduction

Every organisation has a unique system of boundaries, determined by variables originating both within and outside it. This uniqueness of boundaries is reflected in the organisation's identity system as well as in the business model that an organisation follows. The relationships which is developed between a particular business model and its organisational boundaries, based on positive feedback, means that each change in the environment which causes an alteration in the business model affects the system of organisational boundaries.

One of the categories of a change which results in the necessity of remodelling the current business model of an organisation is the process of strategic renewal, defined as a the transformation of current competences combined with a re-allocation of the organisation's resources. As a consequence of undergoing a strategic renewal process; through a re-allocation of resources, a re-orientation of core competences, a remodelling of process architecture and a redefining of boundaries; an organisation undergoes a process of inner transformation and becomes better adjusted to the demands of the environment. The significance of the activities connected with the formation of boundaries means that the people who implement the strategic renewal process ought to define a kind of "optimum system" of boundaries, which will enable a balanced development of the organisation. It is essential to work out an "optimum system" of

boundaries, because if an organisation expands its boundaries too far in relation to its potential, it may lose control over the activities undertaken by an organisation. On the other hand, a failure to expand organisational boundaries will be tantamount to abandoning development, which in consequence will lead to an organisation's stagnation. If one accepts the assumption that an inappropriately conducted process of boundary forming may disturb the development of an organisation, it can be stated that the actions connected with the formation of boundaries become one of the key factors in the long-term success of an organisation.

2. Organisational boundaries

In the literature, there are different approaches to defining the boundaries of an organisation, from relatively detailed and narrow conceptions that focus on particular elements of an organisation which enable the identification of organisational boundaries, to general and broad conceptions which do not give prominence to any particular determinant of an organisation's boundaries [Cyfert 2009]. The broadest approach to defining organisational boundaries is that proposed by Santos and Eisenhard [2005], who maintain that the boundaries are a demarcation between an organisation and its environment, and the boundaries understood in this way are described by means of four components: efficiency, power, competence and identity.

Regardless of the adopted approach to defining the boundaries of an organisation, it is stressed in the literature that the boundaries do not act as barriers to the company's operations but that they act as communication channels between the organisation and the environment, which allows the company to forge and maintain its identity [Cilliers 2001]. Accepting the aforementioned assumption as the basis for a discussion on organisational boundaries makes it necessary to implement boundary management mechanisms into the management of an organisation. The mechanisms will enable an effective exchange of information with the environment on the one hand, and on the other hand, they will help maintain the organisation's separation from its environment. An organisation which operates in a dynamic and not always favourable environment, must always be aware of the risks from the environment or competitive entities in the environment, taking control of the company. One of the first symptoms of a company losing control of the boundaries is its excessive and uncontrolled expansion. As a result, the development process becomes chaotic and erratic, with development then being realised by peripheral units of the organisation and the core competences of the organization, becoming diluted and difficult to define and control due to the process of diversification.

3. Mechanisms of strategic renewal

When constructing their model of the typology of strategic renewal, Baden-Fuller and Volbreda [1997] formulated a hypothesis claiming that there exist discrepancies between the assumptions of the theory of the firm and the theory of change. The theory of the firm, which deals with the nature of an organisation, analyses the aims of the company, strongly stressing the significance of its unique competences and knowledge. However, it does not explain how organisations change and adjust to the environment, which is the domain of the theory of change. This discrepancy means that organisations are forced to reconcile a certain paradox in their drive for change, while at the same time they strive for stability. Striving for stability is induced not only by elements within the organisation, but it is also a result of an attempt to maximise the existing skills and competences. The pressure to change is exerted by both an attempt to adjust to the dynamic environment and by the organisation's growth tendencies.

Attempting to solve the paradox of change and stability, Baden-Fuller and Volbreda [1997] stress the importance of searching for points of convergence between the opportunities created by these two states. A key element of the analysis conducted by Baden-Fuller and Volbreda [1997] is the question why companies exist and how they change. Analysing Lewin's model of change, Baden-Fuller and Volbreda [1997] propose combining this with the concept of core competences, introducing the organisation's decision-making processes during revitalisation or competence re-ordering into the model. On these grounds, they formulate their proposals for strategic renewal mechanisms.

Baden-Fuller and Volbreda [1997] argue that there are ways of solving the aforementioned problem which enable an organisation to alternate between periods of change and stability. They propose that the mechanisms of change management can be determined by two variables: speed and risk.

In the first mechanism, referred to as spatial separation, an organisation is divided into two sub-systems. While some business units of the organisation are responsible for implementing the process of change and strategic renewal, the remaining units, operating within the existing business model, ensure the organisation's stability. Thus, in spatial separation there is a relative separation of the business units participating in the process of change and the business units ensuring stability. Obviously, the business units which ensure the organisation's stability are however not completely isolated from the environment and from the change processes occurring there.

The mechanism of spatial separation, which on the one hand enables an organisation to properly implement the process of change, and on the other hand, provides a satisfactory level of stability, means that an organisation has control over the level of acceptable risk, which eliminates the risk of failure.

The implementation of the second mechanism, referred to as temporal separation, allows an organisation to comprehensively adjust to radical changes occurring in

the environment. Because the most critical factor in temporal separation is time, the organisation cannot manage the process of division into the part that introduces changes and the one that ensures stability. Consequently, the advantages resulting from the speed of the process of change may be outweighed by the increased risk of losing control of the process.

By superimposing the two mechanisms of managing change (spatial versus temporal separation) and two consequences of strategic change (re-ordering versus revitalising core competences), Baden-Fuller and Volbreda [1997] distinguish four models in the realisation of the strategic renewal process (see Table 1):

3.1. Venturing

The venturing model belongs to the category of spatial separation. When it comes to assessing the second criterion of separation, the situation is not entirely clear. In the literature the predominant view is that applying the venturing model is connected with the re-ordering of existing competences and activities rather than with revitalisation. Such a view is represented by Burgelman [1983], MacMillan [1985] and Block [1993], who indicate the existence of a broad spectrum of innovative actions in the venturing model. Using the venturing model makes it possible to treat the business units of an organisation as separate flexible units with clearly defined operational competences. However, using this model also forces an organisation into a process of permanent division into independent business units, which means that the company begins to function at two different speeds. On the one hand, by creating small, quasi--autonomous business units, the company encourages middle-level executives to create and implement new ideas. On the other hand, older and more stable business units guarantee the continuity and stability of an organisation. Consequently, the organisation remains in a permanent state of adaptational transformation. The actions outlined earlier may have negative consequences for the company, as it will have to cover the costs of integrating the new business units with the stable and rigid part of the organisation. Because of the distribution of the costs of failure in the change process, this model is characterised by the lowest level of risk, which, however, happens at the expense of the speed of the transformation process.

3.2. Restructuring

When explaining the construction of the restructuring model Baden-Fuller and Volbreda [1997] refer to the conception of Barnard [1938] and Selznick [1957], indicating the particular role of management in the process of change. A similar view is represented by Chandler [1962], who treats corporate management as change initiators. These assumptions mean that the process of change within the restructuring model is induced by top management and is a result of changes occurring in the environment. The process of identifying and defining core competences becomes

a hierarchical process, where the key role is assigned to the management. In the process of renewal, new core competences are created, whose nature and meaning are communicated to lower levels of management, and the communication takes the form of instructions or orders. Due to the extent of change, the risks involved in strategic renewal based on the restructuring model is higher than in the case of the venturing model. In return for the increased level of risk, the organisation gains an advantage in the form of the speed of change implementation, which increases the probability of success.

3.3. Re-animating

When describing the re-animating model, Baden-Fuller and Volbreda [1997] refer to the conception of Bower [1970], who argued that an effective process of change requires the creation, development and distribution of strategic initiatives from the middle and lower levels of management. Bower's view is supported by empirical evidence from numerous analyses and research studies, which indicate that the renewal process occurs as a result of the autonomous actions of individuals or small groups at the lower levels of an organisation. The re-animation model is connected with renewing core competences, which happens as a consequence of re-ordering or exploiting existing competences by single-loop adaptive learning. The interactions between the renewal process and the demands of clients enable front-line managers to maintain a state of equilibrium in the company. As the re-animating model is bottom-up and emergent in nature, the extent of potential control by top management is restricted.

3.4. Rejuvenating

An analysis of case studies indicates the possibility of conducting a radical change in an organisation, which Baden-Fuller and Volbreda [1997] refer to as rejuvenating. Unlike in the model of strategic renewal where the company returns to its original business model and eliminates unprofitable activities, in the rejuvenating model an organisation implements entirely new processes and competences. The characteristic features of this model of renewal are comprehensiveness and the speed of the change process.

In the case of small firms, managed by their owners, radical change is part of their business philosophy and a source of competitive advantage. Their lack of commitments and relatively low exit costs enable them to introduce radical changes quickly. In the case of big, mature organisations, complete transformations are considerably more complicated, to the point of being almost impossible.

Rejuvenation is one of the most complicated models of strategic renewal, requiring considerable commitment on the part of the management. The necessary speed and completeness of the process may have a number of adverse consequences for the organisation, and, in extreme cases, the organisation may disintegrate into chaos.

Table 1. Models of strategic renewal

	Spatial separation: risk control is vital	Temporal separation: speed is vital
Revitalizing some of the existing competencies	**Re-animating** Bottom-up processes typically involving double-loop learning	**Rejuvenating** Holistic charge programmes aimed at revitalisation
Re-ordering core competencies and peripheral routines	**Venturing** Top-level processes of moving competencies around, including creating new units and selling old ones	**Restructuring** Top-down processes of restructuring divisions, setting of new priorities, and defining new products

Source: [Baden-Fuller and Volbreda 1997, p. 105].

4. The model of strategic boundary renewal process

The logic of activities in the process of strategic boundary renewal indicates that an organisation must go through six stages of actions (see Figure 1).
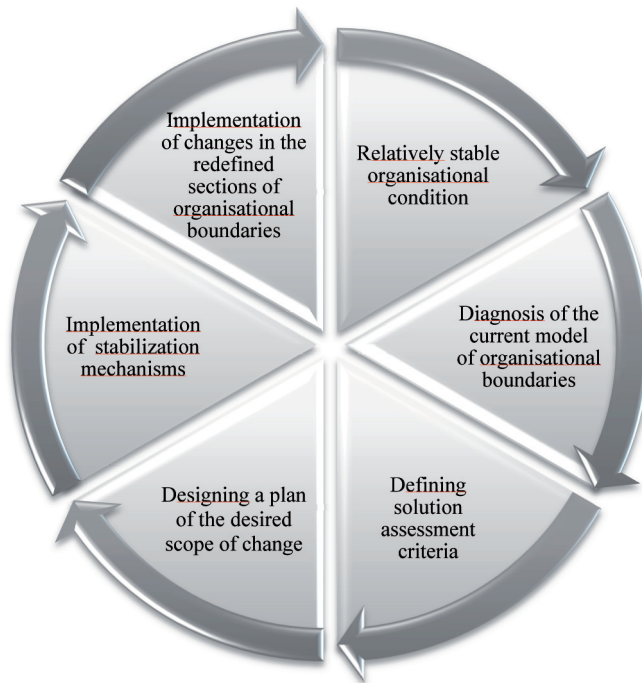
Fig. 1. A model of the strategic boundary renewal process

Source: Author's own study.

The emergence of a gap between an organisation's development potential and its actual boundaries, which adversely affect the process of information exchange with the environment and the organisation's adjustment to the environment, causes dissatisfaction in the organisation's key stakeholders. Such a situation leads to disturbing the existing *status quo*, which triggers the first stage in the strategic renewal process – a diagnosis of the current model of organisational boundaries. The activities undertaken at this stage are connected with identifying organisational boundaries, defining the key irregularities which occur in the relations between the organisation and the environment, analysing boundary determinants, as well as evaluating the cost of maintaining the current model of boundaries.

The following stage, defining solution assessment criteria, involves recognising the need for change, conducting an analysis of the current strategy of the organisation as well as making an assessment regarding the adjustment of the core competences and boundaries of the organisation to the proposed strategic option.

The implementation of the actions in the second stage creates the basis for designing a plan of the desired scope of change, within which the areas of change and areas of stability are designated, and the links between those areas are established. There is a certain difficulty which the team implementing the process of change must overcome; namely, reconciling the problem of the fragmentary nature of the approach to boundary building with the assumption of a modular structure along with the necessity of a holistic perception of the nature of the organisation.

The actions undertaken in the fourth stage relate to those sections of organisational boundaries which are to remain unchanged in the strategic renewal process. Attempts at ensuring stability involve attaching a greater value to the human factor and reinforce the necessity of incorporating enterprise computing-based mechanisms into the management system.

The fifth stage, the implementation of changes in the redefined sections of organisational boundaries, can be considered in terms of redesigning the business model. The actions undertaken consist of changes, involving the acquisition of new competences or the disposal of unnecessary ones, in selected parts of the organisation.

The actions completed in the process of strategic renewal lead to the emergence of a relatively stable organisational condition, within which the managers strive to preserve the changes implemented in the organisation. The most critical actions at this stage are those directed at the distribution of information relating to the changes introduced as well as developing appropriate employee's attitudes towards the altered standards. Ensuring a state of relative stability enables the management to conduct the process of exploring the existing core competences and resources.

5. Conclusions

From the perspective of the organisation's long-term success, applying the mechanism of spatial separation in the process of strategic boundary renewal seems to be more

practicable than attempting to implement the mechanism of temporal separation into the organisation's management. The method of spatial separation provides the possibility of an evolutionary transformation of an organisation, which on the one hand enables the organisation to correctly implement the process of change, and on the other ensures a satisfactory level of stability, thus allowing the organisation to monitor the level of risk and to reduce the probability of failure.

The mechanism of spatial separation is more effective when an organisation has to take risk into account to a greater extent, and when its actions are not determined by the speed of reaction to the changes appearing in its environment. However, spatial separation as a strategic boundary renewal mechanism has one major flaw – its basic assumption of the feasibility and mirability of the implementation of fragmentary changes means that the organisation is more vulnerable to the danger of suboptimisation.

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WYKORZYSTANIE MECHANIZMÓW ODNOWY STRATEGICZNEJ W PROCESIE ZARZĄDZANIA GRANICAMI ORGANIZACJI

Streszczenie: Celem artykułu jest omówienie możliwości wykorzystania mechanizmów odnowy strategicznej w procesie zarządzania granicami organizacji. Punktem wyjścia w artykule uczyniono charakterystykę podstawowych założeń koncepcji granic organizacji oraz charakterystykę mechanizmów i modeli odnowy strategicznej, co w dalszej części pozwoliło na przedstawienie autorskiej propozycji modelu procesu strategicznej odnowy granic organizacji.