

THE STRATEGIC RENEWAL PROCESS – THE CHALLENGE OF CREATING AND CAPTURING VALUE*

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Abstract: Organization development should ensure the simultaneous creation of value for its customers and the capture of value by the business. The first task is to create future revenue streams through innovations, The second focuses on increasing efficiency by matching the existing components of the business model. Optimizing these imperatives is the basis for strategic renewal and organizational success. The article presents the author's concept of a strategic renewal process comprising four stages: triggering changes, forming concepts, changes implementation, verifying and formalizing changes. These stages were analyzed by way of implementing strategic renewal – regulatory issues and value development – exploration and exploitation.

Keywords: strategic renewal, renewal process, creating value, capturing value, organizational change.

1. Introduction

One of the concepts that takes into account the dynamic and non-linear specificity of enterprise development is corporate strategic renewal, which can be understood as the process, content and effect of transformations of organizational components that have a significant impact on the long-term success of the organization [Agarwal, Helfat 2009, p. 283]. The goals of strategic renewal are varied and may refer to the modification of all aspects, methods and directions of the current and future operations of the organization, starting from changes in the product portfolio or the technology used in the relations with other entities on the market [Hajdasz 2017, p. 62]. This takes place by adjusting the organization's elements, including its competences, to the environment in order to improve the current competitive position of the company [Flier et al. 2003]. Therefore it is a complex phenomenon which manifests itself in the different combinations of key activities, scope of transformations and on the effect of the achieved results.

In trying to build a broader perspective of the phenomenon, the key decision makers have to maintain organization's development in such a manner as to ensure the simultaneous creation of value for its customers and the capture of value by the business. The first task concentrates on providing future revenue streams through innovation activity and it is thought to be a risky and resource-consuming. The second one focuses on increasing efficiency by matching the existing components of the current business model and are fostered in a stable conditions and limited changes. Optimizing these two imperatives is the basis and one of the key challenges for strategic renewal and organizational success.

Based on the above assumptions the main purpose of this present is to present the author's concept of a corporate strategic renewal process that will uphold value creation and value capture through adjusting the organization's management system. These variables referred to the configuration of the strategic renewal process. For this purpose there was a need

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to introduce the proposal of the author's strategic renewal process comprising of four stages: triggering changes, forming concepts, changes implementation, verifying and formalizing changes.

2. Corporate strategic renewal – main findings and assumptions

There are differences between the definitions proposed by individual authors regarding the scope and nature of strategic renewal. For example, stimuli initiating renewal can be caused by changes in the business model [Cyfert et al. 2014] or a decrease in efficiency and the creation of a strategic gap [Walas-Trębacz 2008]. The nature and scope of changes are also defined differently, for example as a redefinition of the relationship with the market by creating new products [Covin, Miles 1999], changing the attributes of the organization [Agarwal, Helfat 2009], including elements of the management system [Cyfert et al. 2014], or changing the path of organization development [Schmitt et al. 2018]. Also the result of renewal is perceived differently by individual authors, as a new level of balance of organization [Cyfert et al. 2014], changes in the basic competences of the organization and/or the market-product domain [Floyd, Lane 2000] and the consolidation or improvement of the competitive position through changes in internal processes, structures or competences [Covin, Miles 1999].

In addition to the issue of discrepancies in the scope of renewal, there is also a cognitive gap in regard to the description of the renewal process itself. There is no precise and accepted frame of the configuration and sequence of actions and also factors determining this process [Walas-Trębacz 2008, p. 95]. The literature can indicate concepts based on different assumptions and criteria for the selection of activities. One of the proposals is the four-stage concept of D. S. Chowdhury, which consists in: balance, decline, renewal and the result of renewal [2002, p. 253]. This allows to describe the evolutionary and revolutionary strategic renewal process.

In the next proposal, the renewal process was extended to eight stages, which is based on repeated cycles of organizational development [Hurst 1995]. In response to variability, management takes decisions conditioned by three different perspectives characterizing strategic choices, the emerging, rational and situational approach [Hurst 1995, p. 34]. In this concept, the legitimacy of renewal is a reactive activity conditioned by changes initiated in the environment, which does not reflect the full complexity of the phenomenon, and in fact is based on a wider range of determinants and strategic choices.

However, according to S. Cyfert and K. Krzakiewicz it is important to include the continuous improvement of the organization and to ensure the anticipation of decision-making. Nine individual activities relate to three dimensions of renewal: a definition layer defining the desired development pattern; a regulatory layer referring to the applicable standards and patterns of activities and the implementation layer, describing how to carry out operational activities [Cyfert, Krzakiewicz 2014, p. 11]. Those nine activities are: identifying trends and opportunities in the environment, developing innovative solutions, transforming the business model, creating a vision of breakthrough and inspiring employees, mobilizing and changing employee attitudes, adjusting organizational culture, acquiring and securing resources, transformation and adaptation of the organizational model up to standardization and economic optimization [Cyfert, Krzakiewicz 2014, pp. 12-14]. In this concept, a comprehensive set of activities was presented but the scope of individual sub-processes and the dependencies between them was not specified in a detailed manner.

On the basis of the above-described cognitive gap regarding both the scope and the interdependencies between the activities of the strategic renewal process, there is a need for another proposal that will systematize and clarify the indicated issues.

3. Strategic renewal process – model proposal

As a basis for further considerations, it was assumed that the strategic renewal process will be embedded in a general sense in the context of business model changes, while the operational view in the innovation process. Due to the many reasons for undertaking strategic renewal such as stabilizing operations, obtaining better results than competitors, and improving profitability, it is difficult to clearly indicate a universal measure describing the results of this process. Nevertheless, for the purpose of further considerations the improvement of the organization's functioning efficiency was indicated as a result description.

In the general view sequence of logically related components of strategic renewal process was adopted, that allows indicating four stages: triggering changes, forming concepts, changes implementation, and verification and formalization of changes (see Figure 1).

It should be emphasized that each of the stages of strategic renewal can be considered through the prism of many variables. For example, initiating (triggering) changes may result from an individual decision or alternatively by a reaction to the needs and goals reported by stakeholders (e.g. owners, key clients, investors). In the next stage, forming the concept

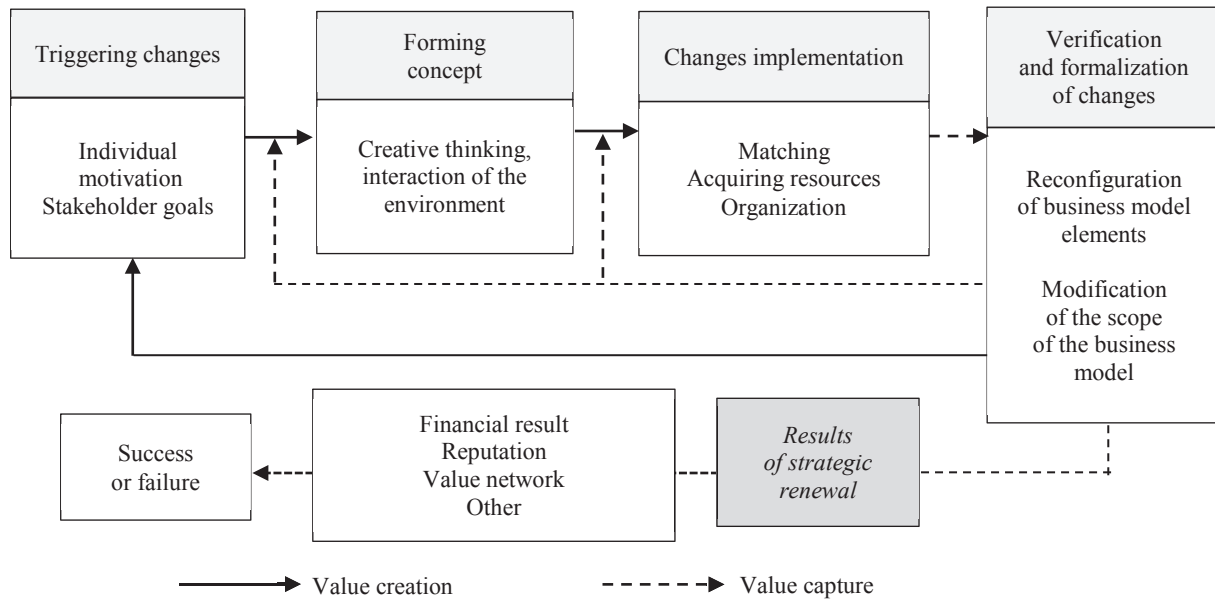


Fig. 1. Process of strategic renewal

Source: own work.

uses the intellectual potential in order to determine the direction and scope of the organization’s changes. These decisions may be based on intuition or a rational approach supported by analysis. The nature of the decision-making may also be different, in a narrower sense it will be top management and/or owners, while in a broader perspective, other stakeholders (employees, investors, administration, social organizations, etc.) may participate. The implementation of changes includes translating the developed concept into operational activities. This includes matching the organization to the environment and the way in which its entities operate (suppliers, buyers, contractors), acquiring resources

and organizing the assignment of roles, powers and resources necessary to perform tasks. Next, comes the verification and formalization of the implemented changes. If the results are unsatisfactory, it is possible to complete the process or return to one of the previous stages to introduce corrections and develop better solutions. Reconsidering the concept or making changes happens rather often, therefore certain activities can be carried out cyclically until the desired result is obtained resulting from matching particular elements within the existing business model. Another option, if deep and significant changes occur in the development path of the organization, is to re-design the whole business model, including a new product/

Table 1. Characteristics of the strategic renewal process

Renewal stages / Details	Triggering changes	Forming concept	Changes implementation	Verification and formalization of changes
Key activities	Readiness for change	Creative and heuristic thinking	Regulation and focus on operational activities	Creating rules, procedures, standards and values
Resource management	Analysis of own resources and the environment	Relocation and accumulation of new resources	Allocation of resources to new activities	Increasing efficiency
Success factors	Readiness to change and take risks, vision, entrepreneurship	Creativity, intuition and information about market functioning	Knowledge and experience of staff, in particular managers	Development and formalization of the organization’s management system
Roles and powers	Changes usually initiated by owners, general management or key stakeholders	Consensus of individuals involved in strategic management	The decisive role of change agents and employee involvement at lower levels	Employee cooperation at all levels of the organization

Source: own work.

market proposal. The final results of the strategic renewal may be manifested in the financial result, reputation, reconfiguration of the value network or in general as an improvement of the organization’s efficiency.

Each stage of the process is conditioned by a different set of relevant activities, the scope of resource use, key success factors as well as roles and powers (see Table 1). For example at the stage of triggering changes, the most important thing is to build readiness for change, the critical factor for success is readiness to change and accept risks, vision and entrepreneurship, and the changes are usually initiated by the owners, general management or key stakeholders.

The concept presented above is conditioned by a number of factors and premise. To better illustrate

the scope of the phenomenon, two criteria describing the configuration of renewal processes were indicated: 1) the implementing method being the resultant, among others, of the strategy, management attitude and development level of the organization management system, and 2) value development including value creation (exploration) or value capture (exploitation).

3.1. Strategic renewal process as the implementation method

The implementation method as a criterion allows to distinguish directed and emergent renewal (see Figures 2 and 3). Variants of the process are presented in diagrams built from two axes: the time and degree of engagement of resources. Each of the processes was characterized by three types of activities: strategic

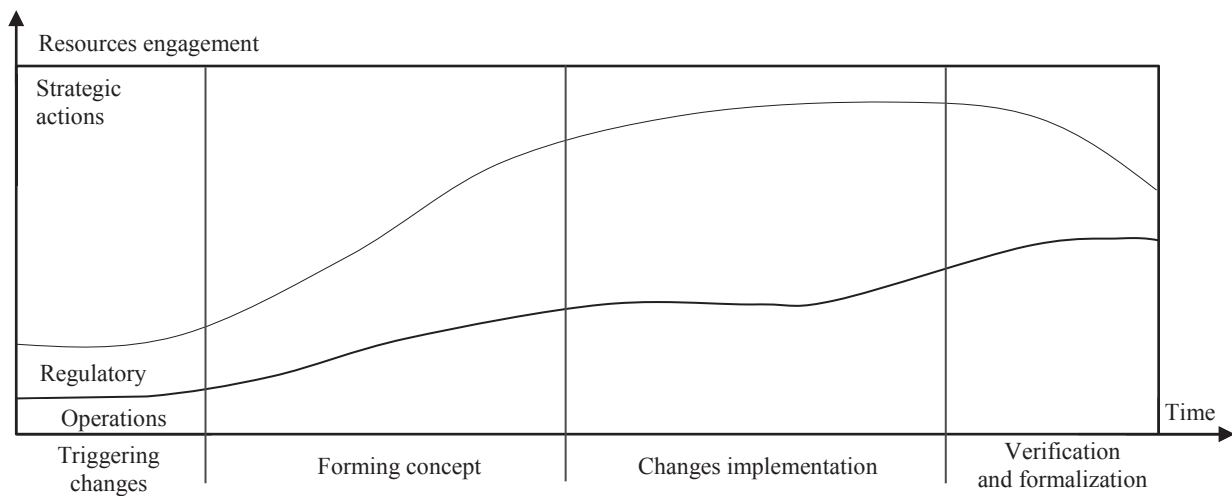


Fig. 2. Process of directed strategic renewal

Source: own work.

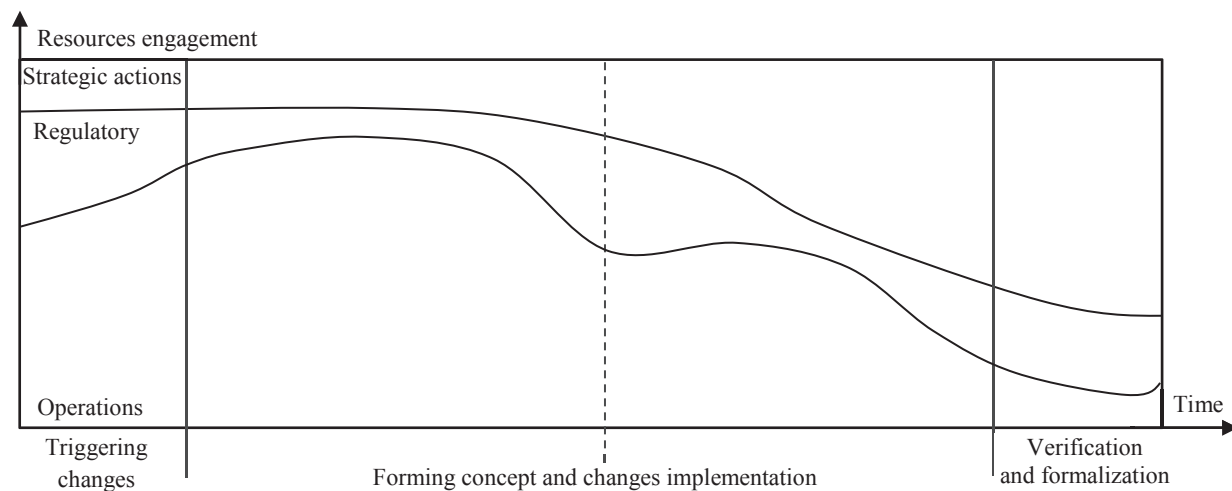


Fig. 3. Process of emergent strategic renewal

Source: own work.

(implementation and shaping of strategic goals and changes in the business model), regulatory (design and improvement of the organization's management system) and operational (implementing the strategic renewal process in business).

The directed strategic renewal is based on a centralized, formalized and planned approach to the implemented changes. These activities are initiated and accepted by the top management or owners. A relatively large part of the organization's resources is devoted to the forming of the concept of development, usually based on a plan or defined development scenarios in given conditions. Planning is based on accurate risk analysis and estimation. A characteristic feature of this process is the significant extension of the regulatory system, in particular the decision-making system (the stage of triggering changes and forming the concept) of the executive subsystem (making changes) and the information subsystem (the verification and formalization of changes). These activities are aimed at ensuring the effectiveness of the strategic renewal process, especially when carried out by highly complex organizations. The stage of making changes is strictly formalized and metered. The risk associated with such a strategic renewal is the threat of excessive growth of the regulatory layer which can lead to a decrease in the efficiency of operational activities and lowering speed of decision-making, including reacting to disturbances and dysfunctions that may arise.

The second option is the emergent strategic renewal process. This assumes a greater level of decentralization of the decisions, and at the beginning the organization formulates only a general goal of renewal but without a precisely defined plan. The

final solution of strategic renewal results from the cyclically repeated stages of forming the concept and the implementation of the changes. However, decision-makers do not impose ready-made solutions and rely more on observing market reactions to activities undertaken by the organization. In the event of failure, a different development concept is chosen and the cycle is repeated until successful. The emergent renewal process has a definitely higher level of flexibility compared to the directed variant. The management staff focuses on providing conditions for employee involvement, including: empowerment, delegation of powers and the introduction of a pro-innovation organizational culture. Emergent strategic renewal can be used in entities operating in dynamically developing industries with a high level of specialization of activities and resources. These conditions are conducive to establishing cooperation with other entities and creating business networks. On the other hand, the result for the organization's functioning within the network is an increase of dependence on the environment. A certain risk could be created by the lack of regulation and defining the boundary conditions for the ongoing renewal process. As a result, this could lead to strategic drift and loss of control over the whole process.

3.2. Strategic renewal process as a value development

The second criterion differentiating strategic renewal is value development, within which one can distinguish value capture and value creation.

The first option refers to actions aimed at improving the financial result and efficiency within the

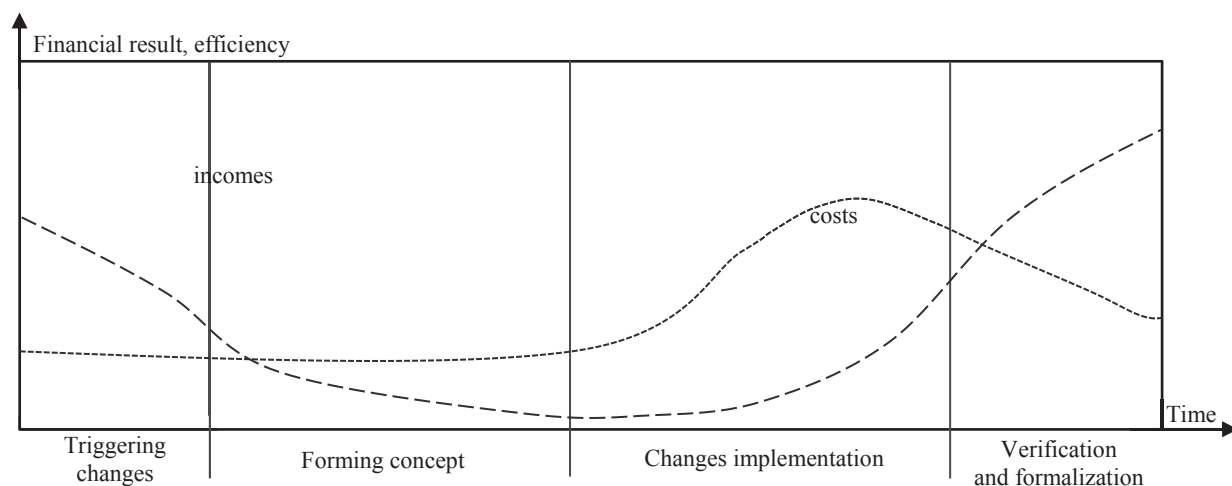


Fig. 4. Value capture in strategic renewal process

Source: own work.

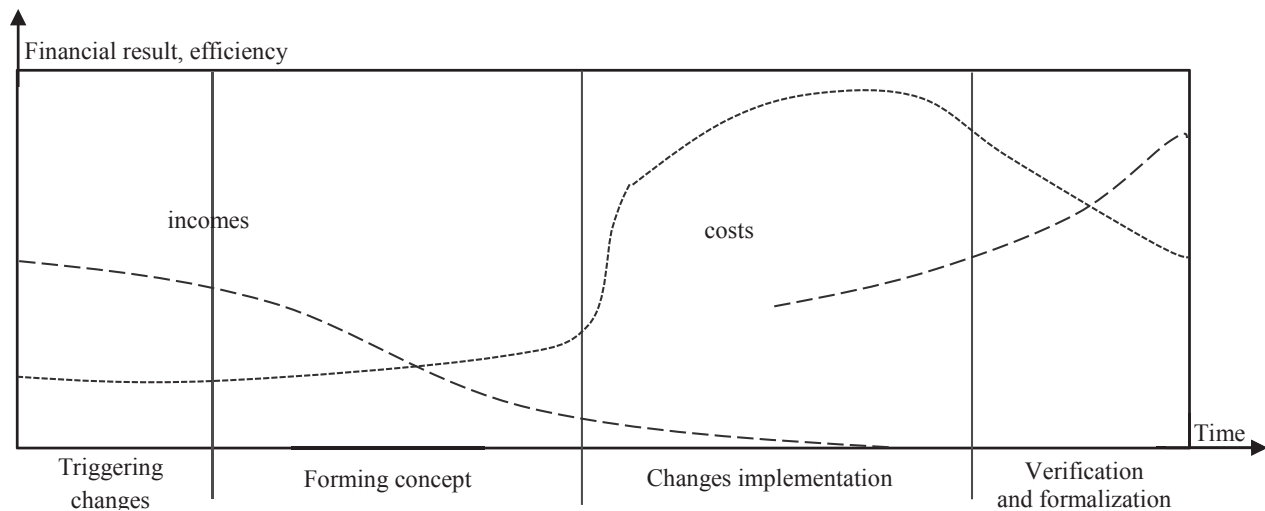


Fig. 5. Value creation in strategic renewal process

Source: own work.

existing business model (see Figure 4). The triggering of changes may result from pursuing the interests of decision-makers, as well as being dictated by a change in the environment and business conditions (competitor's actions, new technology, change of buyers' demand). In this renewal process, the activities are aimed at the reconfiguration and modification of individual elements of the business model pointed out by A. Osterwalder [2005, p. 4]. Its aim is to achieve the mutual adjustment of the model's components which, by synergy effect, will allow establishing a new balance point between the revenues and costs of the enterprise. It is assumed that the offered value proposition (product/market) are not modified. The introduced changes are of an evolutionary and incremental character, which allows to ensure business continuity throughout the entire renewal process.

The second option, value creation, is aimed at developing a new concept of a business model containing an innovative proposal of a product/market. Such a radical transformation is associated with significant risk and may be necessary in a situation threatening the survival of the enterprise. Therefore the assumption of this renewal process is to set a new organizational development path in order to establish a more favourable balance point of revenue and costs (Figure 5). Thus, the company is exposed to a period in which it must incur significant costs related to the implementation of the new business model, while freezing revenues from the previous business. The switch between the old and the new business models is a disruptive change. This is the key and most critical phase of the renewal process. To compensate the risk and minimize the barriers to the entry into the new market, cooperation with external entities is often established.

4. Summary

The main purpose of this article was to propose the author's concept of a corporate strategic renewal process that will uphold value creation and value capture through adjusting the organization's management system. The author presented two criteria of renewal: implementing and value development, which allows to indicate four variants of the strategic renewal process.

To ensure better insight, these types of processes were presented separately, however they can be integrated by the criterion of value development. An example of many possible configurations is, for instance, a directed renewal as a value capture and an emergent renewal in value creation. This perspective of the holistic managing of the strategic renewal process is based on the assumption of ambidexterity and will be developed and described in another paper as a further part of the broader research project.

The presented concepts have some limitation and further research recommendations. The first limitation is the scope of the chosen criteria of the strategic renewal process analysis; certainly more variables can be indicated and applied. The second puts rather strong focus on organizational perspective. It would be interesting to confront this concept with other views emphasizing the business environment, such as the network approach or the ecosystem theory. The third limitation is the need for the empirical verification of these strategic renewal processes, especially in relation to strategic renewal outcomes, both financial and non-financial, as well as the broader scope of different variables determining this phenomenon.

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PROCES ODNOWY STRATEGICZNEJ – WYZWANIE KREOWANIA I PRZECHWYTYWANIA WARTOŚCI

Streszczenie: Sterowanie rozwojem organizacji powinno odbywać się w taki sposób, aby zapewnić jednoczesne tworzenie wartości dla jej odbiorców i przechwytywanie tej wartości przez biznes. Pierwsze z działań przez innowacje ma kreować przyszłe strumienie przychodu. Drugie koncentruje się na wzroście efektywności przez dopasowanie istniejących komponentów modelu biznesowego. Optymalizacja tych dwóch imperatywów stanowi podstawę dla odnowy strategicznej i sukcesu organizacji. W tekście zaproponowano autorską koncepcję procesu odnowy strategicznej obejmującą cztery etapy: wyzwolenie zmian, formowanie koncepcji, dokonanie zmian oraz weryfikację i formalizację zmian. Następnie etapy te przeanalizowano przez następujące kryteria: sposób realizacji odnowy obejmujący kwestie regulacyjne oraz kształtowanie wartości odnoszące się do eksploracji i eksploatacji.

Słowa kluczowe: odnowa strategiczna, proces odnowy strategicznej, tworzenie wartości, przechwytywanie wartości, zmiana organizacyjna.