



## Change as Co-Evolution

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The co-evolution perspective has been developed in management theory during the late 1990s and has reached increasing importance through a series of groundbreaking papers presented in a special issue of *Organization Science* in 1999 (vol. 10, no. 5).

Co-evolution as a theory and possibly emerging management framework focuses on how organizations, both private and public, change and evolve as an outcome of the interplay between external and internal forces. These forces can be of different nature: they can consist of deliberate actions, of institutional influences, and of extra-institutional changes (Lewin et al, 1999). Deliberate actions refer to management decisions (in firms) and political decisions (in public organizations). Institutional factors include regulations, capital markets, educational systems and employment relationships. Forces of extra institutional nature are for example demographics, social movements, and ecological factors.

### How is this Perspective Relevant for Business Practitioners?

The *first contribution* from the co-evolution framework is the imperative of analyzing any strategic change decision in the light of institutional forces. With some perspective on the events, wouldn't the failure of planned mega-mergers such as those between Volvo and Scania in Sweden or between Schneider and Legrand in France, refused by the European Commissioner for Competition, have been easily foreseeable? These examples show that managers often neglect to "do their homework" in terms of understanding, analyzing or simply inform themselves about regulatory public policies. Another institutional force, that of labour relations, is often overlooked when important strategic decisions are made. Again in the context of a planned merger, this time between the National Bank of Greece and Alpha Bank, a "backstairs revolution" of employees in both banks has been put forth as one important reason for abandoning the fusion project.

The *second contribution* from co-evolution is the imperative to integrate an analysis of extra-institutional forces when preparing for important change initiatives. First, it is of utmost importance for each organization to clearly identify which are the true extra institutional forces, i.e., those forces for which the degree of managerial control is very weak. Technology is often advanced as an extra-institutional factor. We challenge this affirmation because a technology evolution factor such as the "IT-explosion", for example, is not a phenomenon independent of purposeful managerial and political acts. A strong market push by firms in the IT and telecom sectors give birth to new technologies and products, often quickly adopted and integrated as indispensable tools in other organizations. So technology is both constructed and deterministic, depending on the perspective from which it is observed; that of a creator of technology, or that of an adopter.

Some general deterministic and extra institutional factors do exist, however, including ecological, catastrophic and to some extent economical (e.g., stock market volatility) and societal (e.g., anti globalization movements) factors. These can be "managed" by including them in strategic risk analysis and scenario planning.

The *third contribution* from the co-evolution thinking is that the forces (i.e., deliberate actions, institutional influences, and extra-institutional changes) that govern how change efforts unfold in organizations consist of a mix between socially constructed forces and deterministic forces. Consider a regulatory mechanism in a Nation or within the EU. In most cases, if the analysis is taken far enough, the particular form and content of a regulation is a result of purposeful political action on the one hand, and, through lobbying for example, of purposeful managerial acts on the other. A regulatory framework such as the anti-trust rules has strong roots in the private sector and in individuals or organizations defending the cause of entrepreneurial activity and free competition. So when business leaders today feel that certain institutional factors are deterministic, they should pay particular attention to how they simultaneously are involved in creating the institutional conditions of tomorrow.

To conclude, let us consider three different types of change with respect to the degree of *reactivity* and *proactivity* in the managerial actions taken (Brown & Eisenhardt, 1998):

- *Reacting* means, for example, to respond to a competitor's product move with a better product, or to meet new customer demands with an innovative repackaging of an existing product. Reacting is a defensive tactic that happens as a response to driving forces.
- *Anticipating* means looking ahead to the emerging needs of customers and markets, the emerging new technologies and the emerging changes in the economy, and then lining up, ahead of time, the presumably appropriate resources to face these changes. Similarly to reacting, anticipating is still a defensive move because forces from outside the firm are triggering the internal changes. However, it normally creates richer opportunities for sustaining competitive advantage.
- *Leading* means creating the changes to which others must react. Leading change can be about the creation of new markets, of new industry standards, redefinition of customer expectations, or increase the pace of product life cycles. It means being ahead of change or even changing the rules of the game.

All three levels deal both with carrying through *managerial changes* and with changes in an organization's productive offering products and/or services.

The co-evolutionary perspective puts the finger on the fact that organizations are involved in all these types of change and emphasizes the importance of taking a lead, at least from time to time, by creating the competitive environment to which other firms, and eventually public policy makers, must adopt.

### References

Brown, S.L. & Eisenhardt, K.M. (1998), *Competing on the Edge*, Boston Massachusetts: Harvard Business School Press.

Lewin, A.Y., Long, C.P. & Carroll, T.N. (1999), "The Coevolution of New Organizational Forms", *Organization Science*, vol. 10, no. 5, pp. 535-550.