

# Cycles of Organizational Renewal: The Interplay of Strategy and Innovation at Bang & Olufsen

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**Abstract.** Bang & Olufsen, a Danish high-end producer of consumer electronics, has experienced both failure and success in the process of strategic renewal, challenged by blurring industry boundaries and the rise of the digital technology paradigm. A study of the last decade shows how the company tried to renew itself by improving its new product development process from three angles: strategy, innovation and organizational design. Using ethnographic and grounded theory methods with a micro-foundational perspective we illustrate how the dynamics in the process of renewal can be accrued into a longitudinal perspective where the key drivers of change cycle between strategy and innovation.

**Keywords:** Innovation · Strategy · Renewal · Ethnography

## 1 Introduction

The concept of renewal is less about acknowledging new conditions than it is in linking environmental change to corporate strategy, and modifying such link over time [1]. By overcoming the inertial forces embodied in an established strategy, norms, and practice, a company needs to aim at closing the gap between the current core capabilities - the service of managers to successfully link core organizational resources - and the evolving basis of competitive advantage in the industry [2–4].

Studies in strategic renewal adopt a variety of theoretical perspectives, among others organizational learning [5], the resource-based view [6] or dynamic capabilities [7, 8] and share an understanding of renewal as a replacement of organizational attributes [9]. As [9] point out, the majority of such studies conceptualize renewal in terms of organizational *process*, rather than as content or outcome. Notably, [10], explicitly drawing on the work of [2, 4], put forward a definition of strategic renewal as “an evolutionary process associated with promoting, accommodating, and utilizing new knowledge and innovative behavior in order to bring about change in an organization’s core competencies and/or a change in its product market domain” (p. 155). Environmental changes keep on rendering today’s incumbents’ existing capabilities obsolete, prompting them to be continuously renewed. Shorter product cycles and blurred industry boundaries are often recognized as the principal triggers [10, 11], together

with non-technological market pressures, e.g. changes in competition [e.g. 12, 13], maturing or slowing customer demand [14–16] or deregulation [12]. Yet, several studies point to the challenges in accomplishing such renewal, among which the cases of Intel [3, 17], Polaroid [18], Hewlett-Packard [19], or Smith Corona [7]. Scholars have identified organizational dynamics hampering the process as with the success trap [20, 21], the myopia of learning [22], organizational inertia [18] or core rigidities [23]. Despite appearing in the literature since decades, strategic renewal it is oftentimes not necessarily recognized as a distinct phenomenon beyond organizational change [9] and is still poorly understood [24]. An attempt to give substance to the process is provided by a subset of studies that consider product innovation as a way to achieve renewal by creating and exploiting knowledge that links market and technology opportunities [25, 26]. Nevertheless, few studies build on the direct relationship between strategic renewal and innovation or provide clear explanations for it, rather rely on vaguely described capabilities [6]. A rising body of research is calling for organizational analysis to be fundamentally concerned with how individual-level factors aggregate to such collective level [27]. Unveiling such capabilities would help clarify the relationship between strategy and innovation in situations of renewal, which is so far only hinted at but rarely explored. We refer to [8] as a good example of a study focusing on the myriads of micro-activities in new product development that are central in shaping the development of capabilities and their dynamic adaptation.

Following the tradition of single company studies, we present the case of Bang & Olufsen (B&O), a Danish high-end consumer electronics producer that during the last decade has been facing remarkable challenges in the industry development. First, the blurring of industry boundaries has redefined the competitive landscape and brought along consumer electronics companies such as Apple or Google. Second, the rise of the digital technology paradigm has seriously impacted the value of B&O's expertise in analog audio technologies, upon which the company's success traditionally has been based. Third, a shift in the way people consume music has changed the whole concept behind a music system, as well as the inherent business model to reach a new generation of customers with valuable propositions. With the case of B&O we build on the relationship between strategy and innovation in situations of renewal. We illustrate how the interdependence between strategy, organizational design, and innovation is to be considered first at the individual level, in which day-to-day activities span the three domains contemporaneously, and from an organizational perspective, where the accrual of micro-activities follows cycles between the domains of strategy and innovation as drivers for the renewal process and adapts the organizational design.

## 2 Methods

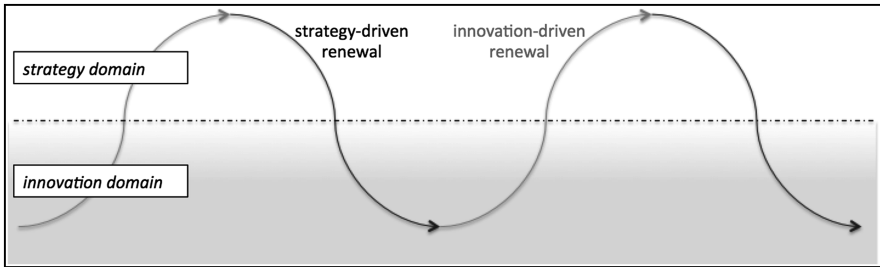
Through an ongoing research collaboration with B&O, we had close access to senior managers throughout the organization, who consistently reported about the firm's challenging situation of continuously catching up with a converging industry. Early interviews made it clear that the causes for B&O's situation were rooted beyond the mere lack of systematic scouting activities, but rather seemed to reside in the complex interplay between strategy, innovation and organizational design. We opened up the

topic of our research to a wider range of explanations and designed an exploratory study combining ethnographic and grounded theory methods as described by [28]. We set to uncover patterns and processes to make sense of the case [29] and to generate theories that could still speak to the everyday's reality of our informants. The principal researcher had extended stays at the company's headquarters in Struer, with a total of 40 full days on-site. In between periods of data collection, rounds of analysis have been undertaken. Data collection was carried out through internal referrals aiming at covering all the functions of the company potentially relevant for the study. Informants range from operative to top management, which exposes us to a variety of interpretations of the events under examination. The principal mean of collection was semi-structured interviews, guided by a list of topics flexible enough to provide the freedom of engaging in narratives of detail-rich stories. Currently, 56 interviews with 36 informants have been carried out, spanning from 45 min to five hours. Additional data was collected through participant observation of eight meetings in which people of different departments would confer about current projects and issues, as well as field notes for the 40 days. Additionally, we collected secondary data in the form of internal news, e-mail exchanges, PowerPoint presentations and employee manuals.

Following guidelines by [28] we relied on grounded theory methods to identify themes as they emerged during data collection and to guide data analysis. The first round of open coding of detailed interview reports allowed us to classify information into practices that span the relevant content the interviewees have considered necessary to share to make sense of the dynamics across the strategic renewal and innovation processes. Through the aggregation of such practices into periods of time, we were able to identify two distinct phases in the process of renewal, as presented below.

### 3 Preliminary Findings

The first cycle of analysis provided us with insights on the interplay between strategy, innovation and organizational design at the individual level, underlying forces driving and hampering change. Due to space constraints, we focus here on the dynamism at the organizational level emerged by studying the company longitudinally and by accruing the micro-activities emerged in the first part of the study. We find a fluctuation between the domain of strategy and innovation as key drivers for the renewal of the company capabilities, and organizational design adapted consequently at each turn. We propose two types of organizational renewal. The *strategy-driven renewal* begins with a new strategy rollout after a check with the external context. Such strategy leads to an organizational design adaptation, often in the form of merges or creation of new organizational units. The innovation efforts of the company are aimed at supporting such a strategy, leading to a new generation of products. The *innovation-driven renewal* begins with an assessment of the recent innovation efforts, both in terms of market success as well as process-wise within the company boundaries. This leads to the consequent adaptation of the organizational design and the processes, which inform and trigger a revision of the overall strategy. Figure 1 illustrates such a model, while Table 1 provides a sequence of events relative to the case of B&O.



**Fig. 1.** Cycles of renewal

**Table 1.** Strategy vs. innovation-driven renewal at B&O

<i>Strategy-driven renewal step</i>	Example #1: 2008–2010	Example #2: 2011–2013
External context check, new strategy roll-out	Regain technology excellence	Re-establish the brand, become a business-driven company
Organizational design adaptation	New CEO, merge of two innovation subunits	New CEO, flatten hierarchical structure
New innovation guidelines and new generation of products	Platform-driven development and first product linking old and new technology paradigm	New innovation process framework, products championing selected core competences, exploration of new opportunities
<i>Innovation-driven renewal step</i>	Example #1: 2010–2011	Example #2: 2013–2014
External context check, assessment of innovation efforts	Products do not meet expectations, NPD undermined by current organizational design	Innovation process more collaborative but inefficient for radical products, products still fail to bring expected growth
Organizational design adaptation	Innovation unit moved under R&D, Innovation unit's head is replaced	Innovation process design adapted to solve inefficiencies, new COO position
Strategy revision	Platform development was good, Innovation process bad, need to expand the strategy beyond technology	Product development deserves more focus, sales need to be boosted, lack of resources hinders exploration

We encountered actions related to both concepts—both in the *strategy-driven* and in the *innovation-driven* renewal phases—yet at different levels of intensity. This suggests a claim of organizational renewal being neither a top-down (as in [30]) or a bottom-up approach [3, 17], rather a combination of both: the groups of people primarily driving the renewal efforts are indeed different (in terms of managerial level and

area of expertise), but their influence is not limited to either one phase. The *strategy-driven process* includes elements of what [10] call “competence deployment” in which change in organizational structure, systems and people is driven by an accepted definition of strategic ends and means, as well as “competence definition” characterized by experimentation with new skills and exploration of new market opportunities. [10] describe the “definition” of sub-process as the result of challenging and contesting activities, while we rather found such attitudes in the *innovation-driven process*, albeit more represented by what they define as the “competence modification.” Here, the newly established processes and behaviors are assessed towards the external context, and can either trigger their alteration or strengthening [4]. This could be specific for the case of B&O, where revolutionary efforts to change the strategic direction of the company as in [3] are not the case, but it also shows that the definition of new competences, when aligned with the renewed strategy, can be carried out through supportive and empowering actions. This prompts us to propose the following:

**Proposition 1.** The process of organizational renewal follows cycles between the domains of strategy and innovation. The assessment against the external context triggers and informs subsequent organizational design changes.

## 4 Conclusion

Research on strategic renewal points to the importance of innovation in driving such process, but has so far only partially provided clear explanations of how two such processes are linked, relying mostly on collective capabilities. We provide explanations for how the two processes are inextricably linked and a bridge for the two bodies of literature. We introduce a model of cycles between strategy and innovation as key drivers for the renewal of the organization, which are the result of the accrual of day-to-day actions. From a managerial perspective, we show how strategic renewal from three different angles hits the process at the heart of the company, the product development process, and the challenges in harmoniously orchestrating it.

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