

Working Paper

**Internal corporate venturing during
organisational change: a study of how
organisational identity influences the
strategy-making process**

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Organisations have to deal with increasingly complex and turbulent environments, which demand that they continuously change and adapt to new circumstances or challenges. One way for organisations to cope with these challenges is to manage the strategy-making process in order to ensure that a continuous stream of new ideas and initiatives create new opportunities and ensure that the company stays viable by adapting to new internal and external challenges. This has been pursued in studies of strategy formation (Mintzberg, 1978), strategic change (Pettigrew, 1988) and internal corporate venturing (Burgelman, 1983b, 2002) and is still a central issue in the strategic management discourse.

It is generally acknowledged that continuous change is important for organisations' survival in a changing world. On the other hand the need for stability and continuity in form of a clear and strong corporate identity is also acknowledged to be critical for organisational success (Collins & Porras, 1994). Where the organisational identity works to ensure consistency in the company's strategic action, the strategy making process works to renew the current concept of strategy (Burgelman, 1983b). Organisations thus face a dilemma when they engage in strategy-making to reconcile the perpetual tension between continuity and change (Burgelman, 2002). This challenge is far from new and has been discussed as e.g. the balance between exploration and exploitation (March, 1991).

This article attempts to answer the question of how organisational actors' perception of organisational identity influences the strategy-making process during organisational change. The study adopts an evolutionary approach to the unfolding of the strategy-making process, using the variation-selection-retention framework of cultural evolutionary theory (Aldrich, 1999; Campbell, 1969; Weick, 1979), which has been applied to the strategy-making process by Burgelman in several of his works (Burgelman, 1983a, 1983b, 1991, 2002, 2003).

Burgelman's framework of the strategy-making process provides an analytical tool for exploring and analysing the forces and mechanisms which influence the selection of the future strategic actions at three levels of analysis: industry level, organisational level and process level (Burgelman, 2002). At the organisational level, the framework shows how induced and strategic processes are in play simultaneously at all times and create as well as recreate the company's corporate concept of strategy. At the process level, a process model of the internal corporate venturing process provides details on how strategic leadership activities influence and shape the autonomous strategic action (Burgelman, 1983b).

Key to the selection of the autonomous action is the strategic context determination, which provides top management with the opportunity to evaluate the adaptive potential of the autonomous initiatives with regard to integration into the corporate strategy. This process is highly dependent on what Burgelman (Burgelman, 2002) refers to as strategic recognition, which involves the confidence of the decision-maker(s) to suspend the "fairly crude rules of resource allocation and for questioning the existing corporate strategy" (page 112). This also involves the cognitive processes of reflective learning and political manoeuvring.

However, the process does not unfold in isolation but in the context of the organisation, which self-evidently is a special characteristic of internal corporate venturing as opposed to other entrepreneurial processes. Burgelman refers to this force as the structural context which encompasses a broad range of possible impacts including organisation structure, strategic planning systems, resource allocation rules, recruitment and promotion systems, measurement and reward systems, and principles guiding behaviour (Burgelman, 2002)(page 99). In other words the structural context can be interpreted as the organisational context in which both types of strategy processes (autonomous and induced) are embedded.

The structural context is generally presented as being stable or relatively stable, which suggests a sequential approach to the understanding of organisational change as constituted by periods of stability, punctuated by periods of change. Although there is a general consensus about the need to dynamically balance the adoption of new opportunities and the continuity of existing competences in strategy-making, the understanding of the underlying dynamics is not extended to include the structural context which operates to maintain a level of coherence in the company's actions and thus influences the strategy-making process.

In this paper, we present empirical findings from a longitudinal study of an internal corporate venturing process of establishing organisational knowledge management. The findings show how the operational level actors' perception of the organisational identity guided their behaviour and influenced the strategy-making process. The study specifically explores the interaction between the autonomous strategic action of the knowledge management process and the actors' perception of the organisational identity showing how a strong organisational identity guided the behaviour of the actors' and made it difficult for them adapt to organisational change. Furthermore the study shows how the actors' construction of a new construed reality enabled them to make sense of the organisational changes and how this affected their subsequent behaviour.

When we here refer to organisational identity, we lean towards the idea that organisations have identities which influence how individuals interpret issues and take action (Dutton & Duckerich, 1991). The understanding of organisational identity in this article is based on an interpretive perspective, arguing that identity is socially constructed and that organisations have a need for some stability of meaning, which leads them to strive for convergence (Whetten & Godfrey, 1998) (p35). The construct of an organisational identity enables the organisational members to maintain their self-esteem and make them feel that they belong to a special organisation and not just some arbitrary company. According to research into the concept of organisational identity, actors tend to behave conservatively and find it difficult to adjust to fundamental organisational change (Brown & Starkey, 2004).

Although we refer to the organisation having a specific identity there is a high degree of fluidity and interpretation connected to the concept. Recently it has been suggested that organisational identity is less stable and enduring than it has previously been depicted and that we should include a dimension of fluidity in the understanding of the concept (Gioia & Thomas, 1996). This allows us to explain why organisations do not change in parallel steps of matching new behaviour and new identity but continuously adapt to environmental influences by reconstructing the meaning of the identity without necessarily changing the labels used to describe this identity (Gioia, Schultz, & Corley, 2000). Organisational identity is thus not separate from the

environment but is constantly created and reshaped by the actors' interpretations of the environment and their actions on the environment (Daft & Weick, 1984; Milliken, 1990). In other words the meanings of the labels incessantly undergo incremental change to fit the dominant behaviour and perception of the company.

Accordingly, we refer to organisational identity as a specific expression in time, not a stable condition, and moreover we acknowledge that this expression is relative to the eye of the beholder and changes over time.

The empirical findings from the field study support the suggestion that organisational identity is not a stable set of constructs linked to a set of fixed behaviours. However, the findings also suggest that a strong, successful and persuasive organisational identity is difficult to change and continues to guide the behaviour of the organisational actors, although they realise that changes have happened to the organisation. In other words, this study shows how a successful organisational identity continues to dominate the cognitive constructs of the actors and guide their behaviour even though they experience a growing dissonance between their expectations and experiences of management's response to their actions. Moreover it shows how the actors make sense of the dissonance by creating a new construed reality and finally how this reconstruction of the organisational identity changes their behaviour.

The main purpose of the paper is to provide empirical insights into the unfolding of the strategy-making process during organisational change by exploring the influence of organisational identity. By focusing on organisational identity as a dimension of the structural context for the strategy-making process, we expand Burgelman's framework of strategy-making, which primarily focuses on the influence of administrative and structural mechanisms and only briefly touches upon the influence of cognitive issues on the selection of strategic action. We argue that the empirical findings give rise to such new important research questions into the influence of cognitive issues on the strategy-making process, which contributes to a better understanding of how to manage the strategy-making process during organisational change. This article is only a beginning and thus we point to the need for further research into this topic in the final section.

Methodology and Research Design

The study of the relationship between organisational identity and strategy-making is based on a longitudinal study of an autonomous strategic process of establishing knowledge management in a single organisation. A qualitative research approach was chosen to enable the collection of detailed, in-depth process data of the actors' meaning construction and understanding of the knowledge management process as well as how the actors' cognition and action influenced the unfolding of the process. The research approach was therefore based on a strong empirical foundation on which new theoretical insight into knowledge management as autonomous strategic action was created.

Being inductive, the research approach employed an adapted version of grounded theory (Glaser & Strauss, 1967), referred to by (Charmaz, 2000) as constructionist grounded theory. In time, grounded theory has evolved along rather different lines of research. Strauss's later works (Strauss, 1987) alone or with Juliet Corbin (Corbin & Strauss, 1990; Strauss & Corbin, 1998) were more open-ended and less prescriptive than the original work, and this trajectory towards a more interpretive understanding has been further promoted by others e.g. (Isabella, 1990; Locke & Golden-Biddle,

1997). From an interpretive constructivist perspective, theory thus does not “emerge” from data, but data are constructed from the many events observed, read about or heard about, which are themselves constructed in a highly selective series of actions.

The ontological and epistemological assumptions of the study were informed by the interpretive paradigm or discourse (Burrell & Morgan, 1979; Deetz, 1996). The study adopts a social constructivist view of reality, implying that reality is socially constructed by the observer (Gergen, 2001; Wenneberg, 2000). Accordingly the role of the actors is understood as active constructors of meaning as well as active interpreters of reality (Weick, 1995). The actors’ meaning construction process is central and forms the basis for understanding the actors’ actions. Drawing from symbolic interactionism (Blumer, 1969), the meaning construction process is seen as happening in social interaction between the actors.

Finally, the detailed findings from the study were analysed using the guidelines from grounded theory on naming and conceptualising the data in order to build an explanatory frameworks which specifies relationships among concepts and thus contributes to the understanding of the relationship between organisational identity and the unfolding of the strategy-making process during organisational change.

Research Setting

The research was carried out at a Danish hearing aid provider, Oticon A/S (www.oticon.com). Oticon, part of the William Demant Foundation, is one of the world’s leading manufacturers of hearing aids. Founded in 1904 by Hans Demant, Oticon was on a strong course of economic growth and international expansion until the late 1970s where sales suddenly plummeted from 14 to 9 percent and the company’s position as the world’s leading hearing aid provider was jeopardised. The drop in market shares was primarily caused by a competitor’s introduction of a new, more discreet hearing aid, based on digital technology, which was positioned in the ear as opposed to the traditional behind-the-ear device (Morsing & Eiberg, 1998).

The crisis occasioned some severe changes in Oticon starting with the employment of Lars Kolind as new CEO. After a few years of cost-cutting and streamlining, he introduced the vision of ‘think the unthinkable’, which was meant to re-establish the profitability of the company. The change process included physical relocation into open-space offices with no fixed work place for the individual, introduction of a project organisation based on the abolishment of the hierarchical organisation, and encouragement of the employees to use their skills creatively (Morsing, 1995). This was enabled by a set of strong values including the importance of continuous innovation and change (Morsing & Eiberg, 1998), the creation of a powerful image in the media and most importantly for this article the development of a new organisational identity. Oticon’s organisational identity has since proved to be dominant and persistent, guiding the actions of the organisational actors, which the field study of knowledge management as internal corporate venturing showed and we will return to shortly.

The research setting was therefore a unique opportunity to follow the establishment of a knowledge management process in an organisation which can be characterised as an innovative environment (Galbraith, 2004; Kanter, 1983; Peters & Waterman, 1982). Moreover as part of the change process, knowledge was emphasised as the foundation for the products and the label ‘knowledge-based’ was used in a self-characterisation,

which made Oticon an especially interesting and relevant organisational setting for research into knowledge management.

Data Collection

The empirical data was collected during an 18-month longitudinal field study of knowledge management in Oticon between February 1999 and July 2000. The study followed the actors' efforts to establish knowledge management between Oticon's headquarters and the downstream value chain partners i.e. the regional sales companies and the local retailers.

The primary sources of the data collection were participant observation, interviews and written materials. The participant observation was carried out by one of the authors, who in the first year of the study spent three days a week at the organisation followed by a six months gradual withdrawal.

The knowledge management process was studied from the perspective of the actors at the operational level. The informants were from different parts of the organisation and were primarily operational-level actors who participated in the process of establishing knowledge management. Management was only involved on a few occasions where they had actually been involved in some knowledge management activities. The process is thus viewed from the actors' perspective rather than from the perspective of management.

Approximately 50 interviews with 18 different persons were conducted during the field study each lasting from one to four hours. In total 18 people have been interviewed some of which have been interviewed several times. Finally, written materials provided information about how the organisation presented itself to the environment (e.g. corporate communication brochures) and how the organisation was perceived by the environment (newspaper articles and academic literature on Oticon) see e.g. (Lovas & Ghoshal, 2000; Ravasi & Verona, 2001).

The analysis of the data followed the strategy of grounded theory (Glaser & Strauss, 1967) through the process of naming and categorising the empirical data, resulting in the construction of three main categories which formed the skeleton of the theoretical model of knowledge management as internal corporate venturing which is presented below. For more details of the research approach, data collection and analysis, please refer to (Kjærgaard, 2004).

The remainder of this paper is structured in two main sections: a findings section where the empirical data are presented in the model of knowledge management as internal corporate venturing followed by a discussions section where the interrelationship between the unfolding of the knowledge management process and the changing organisational identity is discussed drawing from the empirical findings.

Findings

The key findings from the study are summarised in the inductively derived process model of knowledge management as internal corporate venturing, which is shown in figure 1 below. The model operates with two periods in the knowledge management process, creating and negotiating, each of which has a dominant construed reality (Isabella, 1990) as well as a set of cognitive processes which guide action. Furthermore, a triggering event of collision between expectation and experiences marks the transition from one process to the other. Finally, the model has two

characteristics that describe the dominant interpretation of managerial inaction as well as the dominant attitude to action. Although there is no explicit indicator for time, the change from one stage to the other indicates that the process unfolds over time.

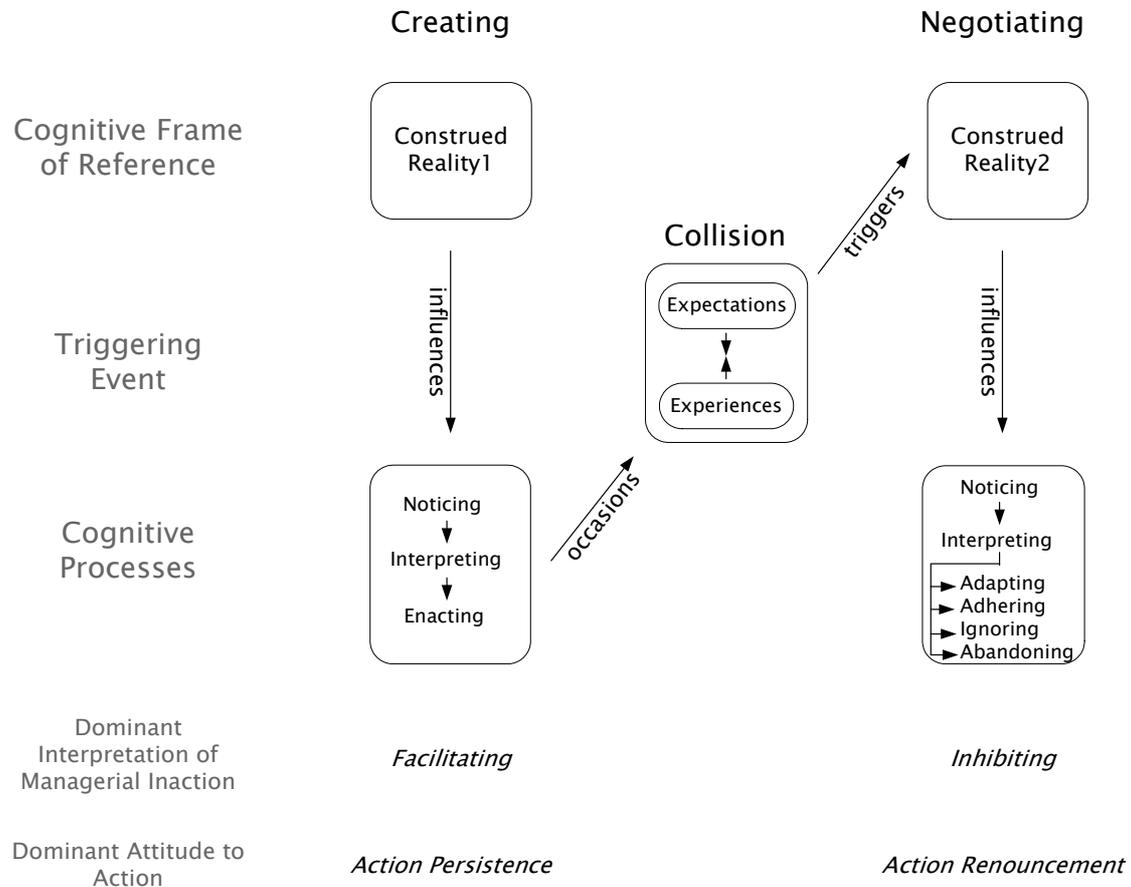


Figure 1: Process Model of Knowledge Management as Internal Corporate Venturing (Kjærgaard, 2004)

The following section presents a more detailed examination of the model’s main elements.

The Two Stages in the Process of Establishing Knowledge Management

The knowledge management process evolved in two periods of creating and negotiating the knowledge management action corresponding to the evolutionary processes of variation and selection.

Creating

In the creation process, different activities, events or ideas were created through innovation processes or adaptation and adoption of ideas existing outside the organisation. The creations were primarily spurred by personal interest and done in parallel with other work tasks.

If you can make do with one or just a few people, then the organisation provides great possibilities for you to start and manage something new – and you are allowed to do it. Interest can be the driver ... quite a few [projects] are allowed to run if they have enthusiastic project managers who set the agenda for the project.

Management's involvement with the activities was limited, and the activities were only sporadically fuelled by either human or monetary resources. The actors themselves described their efforts as 'skunk work'. The creation process was very unstructured and involved different actors from various organisational functions. However, the mood was enthusiastic and the activities were driven by an urge to 'try this out' or 'make this happen'.

When asked about the appropriateness of spending time on activities that were not supported by management, the actors generally stated that being at the forefront and trying out new ideas was part of their jobs, and what had attracted them to Oticon in the first place.

Moreover a 'hands-off' attitude on behalf of management was part of the organisation's human values statement, which emphasised that managers should endeavour to "set as few regulations as possible" and spend the "least possible time on control". Furthermore the managers should "give the employees the opportunity to perform several different tasks if they are interested in and capable of doing so" and "make it easy for the employees to utilise any talent that lies beyond their own area of expertise through a flat and flexible organisation" (Oticon, 2002). These assumptions were interpreted by the actors as expressions of slack resources in the organisation (Garud & Ven, 1992) which enabled the actors to explore new opportunities.

The actors persevered in the creation process and kept coming up with new ideas, also in the case where the idea or activity had not been supported by management when it was proposed at an earlier stage.

In summary this first period in the process of establishing knowledge management was characterised by optimism and energy.

Negotiating

Following the process of creating was a process of negotiating the new ideas and activities. This process was a similar unstructured process to that of creation, and was initiated by the actors. In this period, the ideas and activities were shaped into more coherent ideas or proposals by the actors, who then subjected them to what they imagined to be a decision making process in which they supposed that management would decide which ideas should gain support in the form of resources or attention.

The actors argued for their case and insisted on the value of their ideas for the organisation, but at the same time uncertainty ruled, and the actors referred to management as being indifferent and not treating the new ideas seriously.

This has something to do with the attitude that you are allowed to do something. This is a somewhat peculiar attitude – to be allowed to do something. If you have written a proposal, or a project plan, or a strategy note, you are allowed to work on it. This makes it – I don't know if it is a misunderstood form of communication – the responsibility of the individual to take it further.

JFO

The uncertainty also showed in the negotiation process through the lack of consensus about what should be prioritised in the knowledge management process. The actors referred to this process as 'highly political' and a source of 'internal conflict'. They lamented that management did not pay attention and took no action.

There are ‘too many cooks to spoil the broth’. When there is a project meeting then a lot of people have to come and ‘they all have a voice in the matter’ ... ‘Too many people have some power in the organisation’. It makes it unclear who has the competence to make decisions, which makes it all a bit of a mess.

MOV

In summary this second period in the process of establishing knowledge management was characterised by pessimism, frustration and increasing inaction. The majority of the actors involved in the knowledge management process gave up the action and in the end the knowledge management process came to nothing but fizzled out. A few activities were still talked about as knowledge management activities, but the imagined solution which was supposed to integrate Oticon’s headquarters and its downstream value chain partners was never implemented.

The characteristics of the two processes are summarised in the figure below providing examples from the empirical data and indicating the dominant attitude to action in either of the processes:

	Creating	Negotiating
Characteristics of the process	Skunk work Do it yourself Finding interested people Perseverance Inspiration from competition Proposing new initiatives Values & identity Enthusiasm & drive Confusion about the concept of knowledge management Different perceptions	Seeking decision making Seeking consensus Conflict Uncertainty Power & politics More talk than action Resource allocation Lack of understanding Searching for supporters Discussing Arguing Insistence Selling the idea Aligning interests Giving up

Table 1: The Two Periods of the Knowledge Management Process (adapted from (Kjærgaard, 2004))

The description of the two periods in the table above conveys a picture of two rather different – almost contradictory – processes. In the following section, we will describe the changing frame of reference, here referred to as two different construed realities (Isabella, 1990) which influenced the behaviour of the actors in the process of creating as well as in the process of negotiating.

Changing Frame of Reference

The model shows that different construed realities dominated the two periods of creating and negotiating the knowledge management action. During the period of creating, the actors’ frame of reference was that of ‘Thinking Spaghetti’ (construed reality 1 in figure 1) and during the period of negotiating, it was that of ‘Living Lasagne’ (construed reality 2 in figure 1).

It is difficult not to present these two construed realities as stable states. However, it is an important point that the two states were more than anything cognitive constructs which the actors presented to explain the changes that were happening to the organisation. As such the two construed realities were the actors' attempt to construct stable organisational identities which enabled them to make sense of the expectations and experiences – not least the dissonance between the two - and to justify their actions accordingly.

Thinking Spaghetti

The initially dominant construed reality of thinking spaghetti was based on the results of the metamorphosis of the company in the early 1990s, which was mentioned above.

The radical changes to the formerly hierarchical and starched organisation which were introduced in the change process resulted in what is generally referred to as the spaghetti organisation. In brief the spaghetti organisation can be described as a project-based organisation with no hierarchy or formal titles. The employees were empowered and encouraged to propose new ideas while control was banished and trust became an important value. The organisation was supported by a paper-less office which allowed the employees to change desks according to work projects, only having to push a cupboard on wheels to the new desk and log in using their personal profile on a standard pc (Morsing & Eiberg, 1998).

The new organisation was heavily promoted in the media, who fed the story back to the organisational actors and thus reinforced the sense of being in a special or even unique organisation. Morsing refers to this process as the media boomerang (Morsing, 1999). The interaction created a strong organisational identity of thinking spaghetti which was dominant at the beginning of the empirical study of knowledge management as an internal corporate venturing process. Drawing from the grounded analysis of the process, the spaghetti identity was expressed in the actors' descriptions of the organisational characteristics as informal, unstructured, chaotic, trusting, different and unique. The actors described themselves as 'talented' and 'committed', having 'skills of networking' and being 'able to manoeuvre politically', being 'self-promoting', 'determined' and 'courageous'. Moreover they described the organisation's external image as 'strong' and 'front-running' and the organisation's self-image as being 'unique' and 'different'.

An employee described the organisation as,

Oticon has a very individualistic culture. You have the opportunity to do what you want to do, but you have to fight for it ... And some people give up because they do not have the energy to fight for their interests.

ML

Although these findings initially showed a strong identity closely linked to the spaghetti organisation and supported by the rhetoric in the corporate communication and everyday communication in the organisation, this construed identity was increasingly questioned during the field study as a consequence of a growing dissonance between expectations and experiences on behalf of the organisational actors, described above in the event of collision. The dissonance arose as the actors consistently proposed new knowledge management initiatives that were not supported by management. Contributing to the dissonance was the fact that management did not reject the actions either and thus created an ambiguous situation for the actors. Based

on the lack of response from management itself, the actors gave meaning to the inaction of management, which at first was perceived as a facilitator, a sort of organisational slack, which gave the actors the opportunity to continue to work on the knowledge management action to create an even more relevant set of initiatives. However, when the inaction of management continued and no resources or attention were allocated to the initiatives, the actors reconstructed the meaning to become that of an inhibitor for the knowledge management activities.

Moreover the dissonance eventually made the actors question their own projection of the organisational identity and finally to reconstruct the identity, resulting in a new construed reality of ‘Living Lasagne’.

Living Lasagne

The new construed reality was based on the actors’ perception of a change in the organisation. Whereas the actors had stressed the importance of visions and reflectivity in Thinking Spaghetti, the actors now pointed to a new attitude of management that repudiated these former values and instead promoted a more solution-oriented culture, emphasising products and product development rather than public relations and marketing. According to the actors, this was also reflected in their disinterest in public relations activities, which meant a decline in recent press coverage:

The lights have been switched off and have been so for the past two years. You will only find William Demant if you care to read the share prices; and you will only know that Oticon is part of William Demant if you take the trouble to order the annual report or go on the internet. That is the level of communication that has been decided.

KUE

The actors experienced the organisational changes as disruptions in the expectations of how management “was supposed to act”. They expressed this experience in a comparison of ‘old’ versus ‘new’ organisational values. Whereas they expected the organisation to be prone to continuous change, management expressed a need for stability. Where they expected management to be visionary and facilitate a culture of ‘high ceilings’ they were encouraged to concentrate on good workmanship and leave the thinking behind, which the CEO emphasised by the phrase “this is not a university”, which the actors heart him repeat ever so often. When the actors proposed new ideas or took new initiatives they did not experience openness to discussion of these issues but felt aloofness.

The construed reality of living lasagne therefore emerged as a result of the actors’ attempt to create meaning of the dissonance that they experienced when their expectations to the actions of management were not fulfilled.

The characteristics of the two construed realities are shown in table 2 below in a list of contrasting identifiers:

Construed Reality	Thinking Spaghetti	Living Lasagne
Characteristics	Image	↔ Results
	PR	↔ Product Development

	Creativity ↔ Good Workmanship
	Spaghetti ↔ Lasagne
	Change ↔ Stability
	Tearing Down Walls ↔ Building Walls
	Management Attention ↔ Management Indifference
	Rhetoric ↔ Action

**Table 2: The Construed Realities in the Knowledge Management Process
(adapted from (Kjærgaard, 2004))**

The following section explains the change between the periods in cognition as well as behaviour.

Collision

The shift from creating to negotiating was triggered by a collision between the actors' expectations and experiences which changed the actors' attitude to action as well as their interpretation of management's inaction. Whereas their *attitude to action* was characterised by persistence in the creating process, the attitude changed as a consequence of the growing dissonance between expectations and experiences to that of renouncement. This change was highly linked to the changes in the *actors' interpretation of the inaction of management* which made sense to them as a facilitator in the creating process as opposed as an inhibitor in the negotiating process.

Although structural aspects of the original spaghetti organisation still existed at the time of the field study they had undergone change and existed on a reduced scale (Foss, 2003). Many projects were still initiated bottom-up, but a superstructure had been imposed on the pure project organisation in the form of three business teams and an operations unit. Furthermore, the multi-job system had been discontinued, which meant that it was no longer required of the employees to undertake jobs that were outside their core competence. There were still no formal departments, but the functions of the new operations unit were perceived as more traditional departmental units, as they were physically united in the building and did not arrange their daily work according to a project model. No formal positions existed in the organisation, but a new management layer had been introduced by appointing two managers for each of the business teams. The positions of project leadership were still open to everyone, but project managers had to be accepted by the development group (Foss, 2003).

The changes mentioned were not inconsiderable. However at the beginning of the field study, the changes had not altered the actors' perception about the organisational identity. Some of the changes were mentioned by the actors but more as curiosities than as triggers of a more fundamental change. As the fieldwork progressed this perception changed and an increasing number of examples and stories were told about discrepancies between the image of the organisation and what was actually experienced by the actors.

More than anything time and the gradual build-up of discrepancies triggered the replacement of one construed reality with the other. In the knowledge management process this change in the actors' perception of the organisational identity became clear when the actors continuously were faced with the inaction of management when they suggested new ideas or activities. This led to a reinterpretation of the managerial inaction which previously (in the creating process) had been interpreted as facilitating for the creation of the knowledge management activities. Instead of seeing it as a positive, hands-off gesture, the actors now interpreted it as a rejection, a disinterest in the knowledge management process, and a message for them to stop the action.

Accordingly the new construed reality of living lasagne came into being as a perception, based on the process of contrasting the actors' expectations of the spaghetti organisation with the experiences they currently had. What is particularly noteworthy in the construction of the new construed reality is that it did not replace construed reality¹, which was the case in e.g. Isabella (1990), where the managers, in the process of interpreting a change process, drew from a different construed reality at each stage of the process. In the knowledge management process at Oticon, the two construed realities instead coexisted, and thus created a situation where the actors coped with multiple realities.

The model of the knowledge management as internal corporate venturing provides a framework for understanding the interaction between the operational-level actors' cognition and action in the knowledge management process. In the second part of the article, we discuss the interrelationship between the actors' perception of organisational identity and the strategy-making process based on the empirical findings from the field study as well as established theoretical insights about strategy-making and organisational identity.

The Interrelationship between Strategy-Making and Organisational Identity in Oticon.

During the field study at Oticon the organisational identity of thinking spaghetti clearly dominated the behaviour of the actors in the knowledge management process. Their actions in the first period of the knowledge management process reflected their perception of the organisation as creative, front-running and daring which they enacted in their persistent creation of new knowledge management related activities. The construed reality of thinking spaghetti was so strong that they did not hesitate in their actions although they did not receive support from management. Only in time, when the support still did not come as expected, they changed their behaviour.

In contrast to the behaviour in the first period, the behaviour in the second part of the process was not guided by a strong organisational identity. Living lasagne was not a new strong organisational identity, taking over from the receding identity of thinking spaghetti, but was an emerging construct based on the actors' understanding of what was no longer part of the company's priority and strategy. Living lasagne was thus quite different from thinking spaghetti – not as uniformly perceived and not as strongly integrated with the actors' requirements and wishes about their workplace.

This created uncertainty about the loyalty of the actors. From being very loyal to the organisational identity of thinking spaghetti, the employees were faced with a dilemma: should they adapt their actions to that of the new identity of living lasagne or should they hold on to the identity of thinking spaghetti, which had been an important part of their working life for almost a decade and had made Oticon a major

success? The old timers had experienced the changes and embraced them by staying. Most of them had further more been keen ambassadors of the spaghetti organisation, praising the organisation in the media and commending it to the many visitors, which came to study the organisation. The new-comers faced a similar dilemma: They had been attracted to the spaghetti organisation's external image. Some had even waited years for a suitable position to be vacant. It is self-evident that they were not keen to accept that the organisation was not what they had expected.

The empirical findings clearly show how the operational actors clung to the spaghetti organisation, which many of them had participated in building and a few of them openly resisted the changes and mentioned that they did not like the way management downplayed the spaghetti organisation. Equally important to the actors' persistence in thinking spaghetti was management's inaction. Management did not encourage the actors to reconsider the organisational identity nor did they make an effort to construct a new organisational identity. Put differently, the actors were not encouraged to change behaviour or perception about the organisation. This makes two issues stand out from the findings as important influencers of the knowledge management process: a) the actors persistence in thinking spaghetti and management's inaction.

The persistence of the actors

The actors' commitment to the knowledge management action can be understood as an escalating commitment to action based on the actors' self-justification and a desire to appear rational in their behaviour (Staw, 1981). To explore this proposition in more detail we focus on the first period in the knowledge management process of creating:

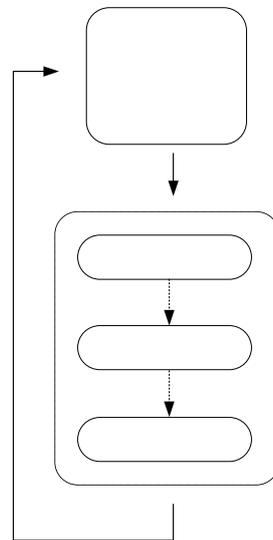


Figure 2: Creating a Self-Fulfilling Prophecy (adapted from (Kjærgaard, 2004))

The first two steps in the knowledge management venturing process (construed reality and creating) can be interpreted as creating a self-fulfilling prophecy (Weick, 1995), which resulted in the actors' persistence to continue the creation of new knowledge management activities and ideas, although they were not supported by management - and in some cases even turned down by management.

A central element in the understanding of the process as a self-fulfilling prophecy was the actors' strong assumptions about the organisational identity which was based on the construal of thinking spaghetti (A).

According to Weick (1995), people will try to create some sort of stability and predictability when they engage in ambiguous tasks or when they face instability. The knowledge management process can be interpreted as such an ambiguous task for at least two reasons. Firstly, it was an autonomous initiative, and therefore no formal objectives, plans or expectations existed. Secondly, the organisational identity encompassed 'creative chaos' and valued flexibility as well as lack of formal procedures and creative ideas.

This strong organisational identity created stability and guided the actors' actions. The actors' noticing (B) was therefore guided by the construed reality¹, and they saw the organisation as a realisation of the spaghetti thinking. Based on this bracketed reality, they interpreted (C) the values of the organisation (and management) as supporting creativity and courage. They enacted (D) this interpretation by being creative, coming up with new ideas in the knowledge management process thus reaffirming the construed reality¹ (A) and accordingly their commitment to the action.

The actors ignored management's disinterest as they saw themselves as frontrunners, daring, individualists, and ready to fight for their ideas, which were again a reflection of the organisational identity. Furthermore they did not create a formal proposition for spending time on the action, nor did they ask permission from anyone as they expected this chaos and taking initiatives on their own as being in line with the spaghetti way of organising.

The results of the creation process were then evaluated against the presumptions of the construed reality¹, and the behaviour was confirmed by the presumptions that the actors had constructed themselves. This 'thinking in circles' resulted in the escalation of the actors' commitment to action and created a self-fulfilling prophecy (Kjærgaard, 2004).

The inaction of management

The inaction of management, rhetorically as well as behaviourally, added to the escalating commitment of the knowledge management action by not breaking the self-fulfilling prophecy. The company's vision and mission statement remained the same and as described in the findings section, management did not actively promote a new organisational identity to take over from thinking spaghetti. Living lasagne was accordingly very much a construction of the actors' making, where thinking spaghetti was envisioned and promoted by the former management who took an active role in constructing the organisational identity of thinking spaghetti. As described by various participants or observers of the spaghetti organisation in (Morsing & Eiberg, 1998), management and particularly the former CEO played a significant role in designing, promoting, implementing and sustaining what became the myth of the spaghetti organisation. During the field study it became clear that the new management did not intend to play an equally proactive role in the creation of a new organisational identity to replace/succeed the spaghetti organisation. In contrast the actors felt that it was very difficult for them to receive clarification of management's thoughts and plans for the future regarding anything else than product related issues, in which case they were very informative and proactive. During the field study, the actors noted that some words were being repeated more frequently like 'product development' as opposed to

‘media attention’ and ‘silence’ as opposed to ‘noise’ referring to the projection of the organisation’s image in the media. However as no new story about the organisation was told – at least not a coherent and convincing one – the myth of the spaghetti organisation persisted and the actors ignored the signs of change and the lack of commitment from management.

A broader range of behaviour

The more diffuse organisational identity which the actors’ construed in the second period of the knowledge management process did not guide the behaviour of the actors as narrowly as the first construal. The consequence of this was a broader range of behaviour in the second period of the process, governed by whether or not the actors were willing to adopt the new organisational identity based on thinking spaghetti and whether they chose to continue the knowledge management activities or let them go.

The empirical findings show four different ways of acting as shown in table 3.

Table 3: Four Different Types of Behaviour (Kjærgaard, 2004)

Adapting refers to the situation in which the actors stuck to the knowledge management process, but accepted that the organisational identity was changing. They responded by continuing the knowledge management action but re-conceptualised it to fit the new construed reality of living lasagne. By influencing the creation of new initiatives which better fitted the current concept of strategy, the actors made them more easily acceptable for management to support. The outcome became, in other words, less autonomous and more induced. From a perspective of organisational change, this behaviour came closest to a readiness/willingness for change.

Adhering happened when the actors stuck to knowledge management process but did not accept the new reality. In other words they fought against the change to the organisational identity, which they experienced. By committing themselves to the knowledge management action and justifying it by drawing on the expectations they had at the beginning of the process based on thinking spaghetti, the actors made a difficult case for themselves in the organisation. The commitment was made even stronger by the fact that actors had chosen to join Oticon in the first place (or to stay through the turbulent reorganisation) specifically because they wanted to be part of the spaghetti organisation and believed in it. By adhering they showed a strong commitment to both the knowledge management venturing process and the construed reality of thinking spaghetti with no interest in discontinuing the process or adapting

to a changed reality. The outcome of this action was that some of the actors left the company to 'pursue their interests elsewhere'.

Ignoring was the case when the actors gave up the venture and did not accept the new reality. The actors' blamed themselves that the knowledge management activities or ideas that they had suggested were not good enough for management to embrace. They did not necessarily question the idea of establishing knowledge management itself but saw management's lack of response as caused by their own inadequacy to create a good enough initiative for management to accept. The process of ignoring was not grounded in the individual actors. Instead, the process should be viewed at a group level as new actors took over thus ignoring the results of the previous actors' attempt. The process of ignoring is resembles that of a failure trap (Levinthal & March, 1993) or as an impeded learning process, where new actors simply repeat previous actions and do not learn from history.

And finally the actors' behaviour of *abandoning* can be seen as the evaporation of the knowledge management initiatives, based on an acceptance of the new construed reality and a realisation that the knowledge management activities "did not fit into this organisation that it has become" (KUE). By abandoning the action, the actors accepted that 'reality had changed' and that the ideas which they had proposed did not fit this new reality. On this basis they dropped the action, which "just slowly disappeared and nobody talks about [...] anymore" (ML).

Implications and Future Research

The description of these four different courses of action in the second period of the knowledge management process clearly shows the difference in range of behaviour in the two periods. Where the action in the creating period was concentrated on continuously creating the knowledge management action, the action in the negotiating period was concentrated on making sense of the growing dissonance between expectations and experiences and resulted in a much broader range of behaviour. This broader range of behaviour is interesting because it made the actors spend time and resources on actions which were not accepted as part of the organisation's concept of strategy. Instead of adapting to the organisational changes, the actors resisted the changes by holding on to the organisational identity of thinking spaghetti and thus complicating the internal selection of strategic activities.

The empirical findings thus show how a strong organisational identity can be very durable and persistent having a significant influence on the behaviour of the actors. By not acting management missed the opportunity to act pre-emptively and manage the process and instead let the actors create their own constructs to guide their behaviour. From an evolutionary perspective, the inaction or the nonaction (Burgelman, 2002) (p. 398) of management can be seen as a way of letting the organisational change evolve and the problems solve themselves by non-intervention. Although the findings do not tell us whether this was the case, such a stance has its draw-backs too. The frustration and discontent which the actors felt, they communicated to the outside world as well as to their colleagues. Possible results of this rather negative image of the organisation could be a less attractive reputation and accordingly fewer applicants to vacant positions, employees leaving etc.

It seems likely to say that the escalating commitment of action could have been cut short by a more open discussion or dialogue on the future of the company including issues of vision, mission, values etc. In this way the meaning of the labels used to

express the organisational identity would be continuously reconstructed, which again would decrease the dissonance between the expectations and experiences. The process of renegotiating the meaning of the labels can be seen as constituting the flexibility to prevent organisational identity inertia. (Gioia et al., 2000) suggest that organisations have to continuously call their identity into question in order to keep it a reflexive concept as opposed to a congealed image. By recognising the management of instability in identity as a strategic concern, management can pro-actively engage in destabilising the identity of the organisation in order to facilitate change in the organisational identity and avoid creating a fixed identity, which is difficult to change.

In this way proactive management of organisational identity becomes an important issue in the strategy-making process. Our understanding of the strategy-making process has previously been depicted as influenced by a stable context. The empirical findings from this study show how the process unfolds in an ambiguous context where the organisational identity is not stable but in flux. Based on these findings, it would be interesting to further explore how cognitive issues in general and organisational identity in specific can become an integrated part of the strategy-making process and how this would affect the unfolding of the strategy making process during organisational change. This idea is consistent with the recent work of e.g. (Brown & Starkey, 2004) who presents “the promotion of dialogue about future identity as an integral feature of strategic management [which is important] for promoting changes in organisational identity through time” (p.580).

The findings suggest that it is important in periods of organisational change for management to help the construct of a new organisational identity in order to create a new sense of stability to guide the actions of the actors and lessen the frustration and ambiguity caused by the change. However, given the high frequency of organisational change needed to adapt to changing demands in the market, the organisational identity can become too stable and accordingly too difficult to change. Thus further research into how organisations can balance the concurrent need for stability and for flexibility in the organisational identity as an integrated part of the strategy-making process is needed.

The main implication of the findings for the understanding of organisational strategy making is an increased focus on the cognitive aspects of the process, specifically during organisational change. Where previous research into the strategy-making process has focused on understanding the structural and administrative aspects influencing the process, the empirical findings show the importance of gaining more insights into the cognitive issues which influence the strategy making. Yet another implication from the findings is important to put forward: the need to focus on the cognition and action of the operational-level actors as opposed to a management-only focus. By gaining such an insight, management will understand how to play an active role in promoting and communicating the changes in the organisation and thus make them an integrated part of the strategy-making process.

The discussion of the link between organisational identity and the strategy-making process is far from exhausted in this article. The purpose here has been to construct a grounded model and use this model as a framework for providing insights into the interrelationship between organisational identity change and the behaviour of the operational-level actors in the knowledge management process. To explore this relationship further, we call for more research with a cognitive perspective on the strategy-making process.

Conclusion

The purpose of this paper has been to explore the unfolding of the strategy-making process, specifically focusing on the relationship between organisational identity and the strategy-making process. It has been suggested that a company's organisational identity has significant influence on the unfolding of the strategy process by guiding the behaviour of the actors.

The findings show that there is a strong relationship between the actors' perception of the organisational identity and their actions. In the empirical study the organisational identity of thinking spaghetti dominated the operational-level actors' behaviour in the first period of the knowledge management process where the actors continuously created new knowledge management action based on their perception of the organisation as being open to new ideas, front-running etc.

Moreover, the findings show how management's inaction caused a high level of ambiguity and uncertainty among the actors. Management's lack of communication and involvement in the knowledge management process was first interpreted by the actors as related to the organisational identity of thinking spaghetti where it made sense that the actors was given the freedom to act on their own and to use their skills and creativity as they wished.

And finally, the findings show how the actors' persistence in creating new knowledge management action resembled an escalating commitment of action. The actors ignored signs of disinterest or rejection from management to keep their self-esteem which was a reflection of the strong organisational identity of thinking spaghetti. This self-fulfilling prophecy was in time broken by the widening gap between the actors' expectations and experiences which led to a reinterpretation of management's inaction as an inhibitor of the knowledge management action. This perception of management's rejection made sense to the actors in the context of the new construed reality of living lasagne in which the organisational identity was expressed as a diametrical opposite to the organisational identity of thinking spaghetti.

Based on the findings from the empirical study, we end this article by concluding that organisational identity has a significant influence on the unfolding of the strategic action. Particularly during organisational change, a strong and stable organisational identity can prove difficult to change and has considerable influence on the organisational actors' cognition and action. Nonetheless, organisational cognition in general and identity in specific is only briefly touched upon in the strategic management literature. We hope to have spurred further research interests in this topic.

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