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Behavioural strategy and deep foundations of dynamic capabilities – Using psychodynamic concepts to better deal with uncertainty and paradoxical choices in strategic management

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ABSTRACT

Behavioural strategy deals with strategic management from a psychologically informed perspective, integrating emotional aspects in strategic management. Strategic situations can be characterised by a high level of uncertainty, based on the unforeseeable nature of the future and the paradoxical nature of underlying seemingly conflicting choices. Both entail human emotional reactions such as fear and anxiety. Therefore, the micro-foundations of dynamic capabilities theory should pay more attention on the study of fear in the strategic decision-making process. Psychoanalysis and psychotherapy have long-term experience in researching these emotions, such that psychodynamic theory can help with understanding their influences on the thoughts and feelings of the manager, the management team, and the organisation in the process of strategy making.

Using the psychodynamic lens in the field of behavioural strategy presents a new and fairly neglected avenue for exploring the more unconscious, 'deep foundations' of dynamic capabilities resting on the strategizing manager, the top decision-making team, and the implementing organisation. The three generic dynamic capabilities developed by Teece et al. (1997) and Teece (2007), sensing, seizing and reconfiguring, provide a framework for developing a process-oriented perspective for creating corporate strategy, so that the foundations of dynamic capabilities can be reworked and complemented within this framework. This will also enable the operationalisation of success factors for dynamic capabilities from a psychodynamic perspective and creates opportunities for future research.

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Introduction and problem statement

Teece, Pisano, and Shuen's (1997) theory of dynamic capabilities has received increasing attention in the last ten years, and Teece (2007) has continuously developed the original concepts. He identified three generic dynamic capabilities: sensing opportunities and threats, seizing opportunities, and reconfiguring assets and structures (Hodgkinson & Healey, 2011). The external and internal environments represent the factors that influence the sensing and seizing of the opportunities, so that the existing resource base will be re-orchestrated and reconfigured (see Fig. 1). Although the concept of dynamic capabilities is now well integrated into strategic

management, two major points of criticism are still prevalent and need further exploration.

The first point of criticism is that there is a fundamental paradox of continuous change versus a human and technical need for stability and a static point from which to generate the change. This paradox pervades all dynamic capabilities approaches and thus strategic management in general. It stems from the fact that processes and procedures require a fixing or specification in order for action patterns to develop, when at the same time constant change is needed, along with the willingness to create and accept it. This core paradox can be described as 'stability versus change' (Schreyögg & Kliesch-Eberl, 2007). Although Schreyögg & Kliesch-Eberl, and other researchers, use the term *dilemma* in this context, it seems more appropriate to focus on the paradoxical nature of this pair because a paradox is best described by two contradictory elements which are related to each other as the two sides

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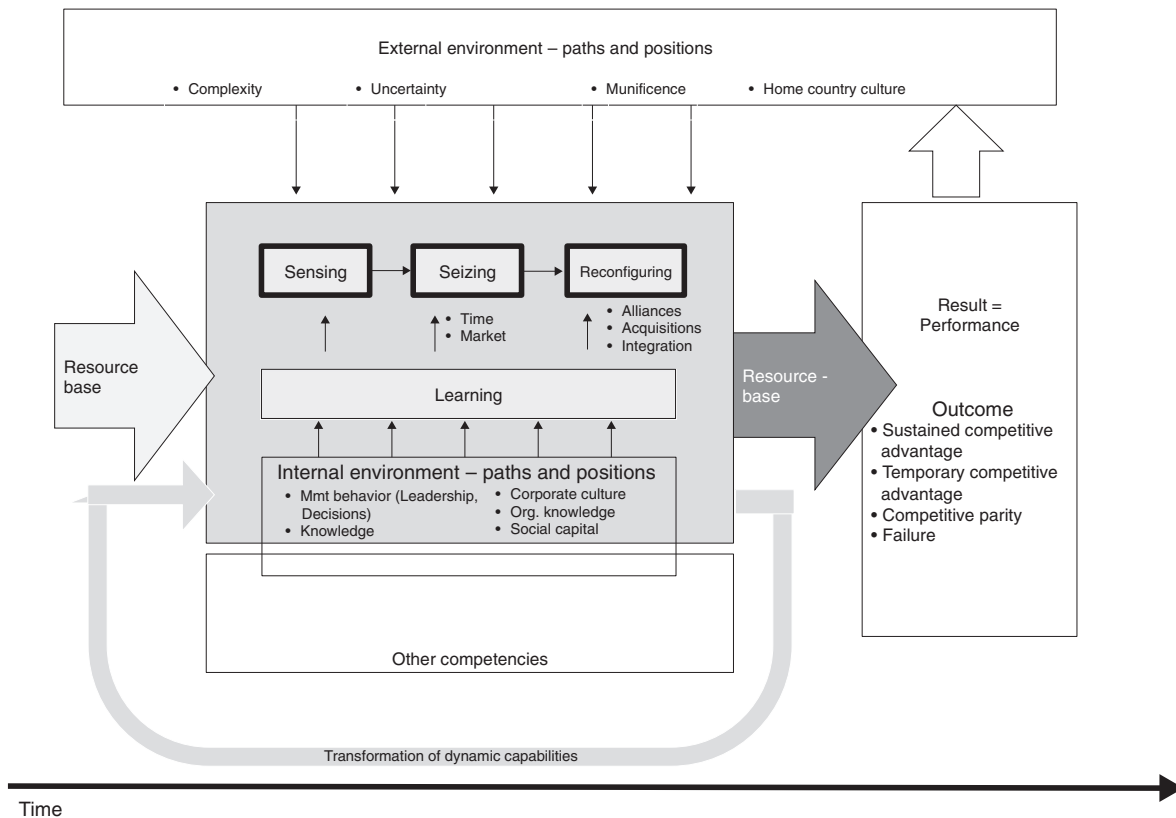


Fig. 1. Fundamental elements of dynamic capabilities.

Adapted from Ambrosini and Bowman (2009, p. 43).

of one coin, they persist and are impervious to solutions, whereas a dilemma has an either/or solution requiring a trade-off (Lewis, 2000; Smith, 2015). Stability and change seem to be contradictory, yet they are obviously both necessary for successful organisations. Stability stems from path-dependency, a certain organisational and structural inertia, as well as the need for strategic investments (Ghemawat, 1991), which are entered into to create a purposeful resource base. Investments in the resource base lead to a certain level of determination, sometimes resulting in rigidity and turning into 'sticky resources'. Yet, in the organisational context, clients and their changing needs, technological development, changing competitors, and suppliers need change to survive and grow.

Schreyögg and Kliesch-Eberl (2007) try to solve this paradox by approaching it through the central idea of focusing on the ability of combining and connecting the resources instead of focusing on the resources themselves. They also introduce the notion of a monitoring system which Moldaschl (2006) coined as 'institutional reflexivity'. Both share the separation of the creation of patterns from the creation of dynamics. As it will be shown later here, the paradox is and must be unsolvable when the human side of the decision maker is taken into account as the root of dynamic capabilities.

The second point of criticism is that the nature and location of dynamic capabilities is unclear. Dynamic capabilities obviously deal with capabilities and competencies, but it is not yet clear where these capabilities are ultimately located: are they structures or processes and thus competencies of the organisation, or are they competencies of individuals? Do they emerge individually or collectively, or are they simple organisational aggregations? The strategizing manager, who would be an intuitive starting point for analysis and the locus of these capabilities, was for a long time not existent in this construct, even though it was assumed to be closely tied to the field of psychology (Helfat et al., 2007).

Recently, the human decision maker is receiving more attention (e.g., Ambrosini & Bowman, 2009; Felin, Foss, Heimeriks, & Madsen, 2012; Hodgkinson & Healey, 2011; Tripsas & Gavetti, 2000) and the contemporary literature on microfoundations of dynamic capabilities (e.g., Barney & Felin, 2013; Felin et al., 2012; Foss & Lindenberg, 2013; Foss, Heimeriks, Winter, & Zollo, 2012) and dynamic managerial capabilities (Helfat & Martin, 2015) is now integrating this perspective, still mostly focusing on the purely cognitive side of the manager. Only Hodgkinson (2015) and Hodgkinson and Healey (2011, 2014) take a closer look at the pure psychological and emotional underpinnings of dynamic capabilities.

In the following we analyse how both of the above-described shortcomings can be addressed by the behavioural strategy perspective as a useful complementary and explanatory construct, especially when it focuses on psychodynamics and the underlying emotions of fear and anxiety, because of their deep influences on strategic decision-making and subsequently, the resultant strategies. Thus, the goal of this paper is to explore how behavioural strategy insights can shed new light on the deep foundations of dynamic capabilities and help develop key aspects or key factors that will ensure the success of the corporation. Introducing the term *deep foundations* serves the purpose of underlining the psychodynamic nature of the influencing factors within and between the human strategizing manager(s) and alludes to the mostly unconscious side of these factors.

Starting with the natural observation that strategic choices are made by human beings on the C-level either individually or in a Management Team, the foundation of dynamic capabilities must be conceived within the individual, such as with the CEO and his/her Top Management Team, its actions, decisions, and interactions, to develop and implement corporate strategy with regard to competitive advantages. Consequently, we focus on psychodynamic concepts as a fairly neglected part of behavioural strategy. It will

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