

# **The structure and significance of strategic episodes: social systems theory and the routine practices of strategic change**

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## **Abstract**

In this paper we draw on Niklas Luhmann's social systems theory, and in particular his concept of an 'episode', to guide research into strategic practice and its relationship to the operating routines of an organization. Episodes, in Luhmann's theory, provide a mechanism by which a system can suspend its routine structures and so initiate a reflection on and change of these structures. Applying this theory to the organisational process of strategic change, we draw attention to the routine nature of strategic episodes and to their organisational role as the effective locus of strategic practice and the interaction between strategic and operating routines. We continue to develop a framework for the systematic analysis of different kinds of episode in terms of key aspects of their initiation, conduct and termination.

## **The structure and significance of strategic episodes: social systems theory and the routine practices of strategic change**

This paper responds to a recent call for an exploration of strategy as a form of social practice (Whittington, 1996, 2001; Hendry, 2000; Jarzabkowski, 2000; and see also Johnson & Huff, 1997; Samra-Fredericks, 2000; Watson, 2001). Theoretically, the suggestion of this call is that strategy research might usefully be advanced by framing it in the context of social theories of practice, such as those of Giddens (1976), MacIntyre (1985), Foucault (1980), Bourdieu (1990) or de Certeau (1984). The main thrust of the call, however, is for empirical research into the many activities that constitute strategy as practice. These might include, for example, the work practices and career patterns of strategy practitioners, the ways in which they develop their particular skills, the routines in which they engage, the technologies they employ, and the myriad micro activities that contribute in one way or another to changes in, or confirmation of, an organization's strategy.

In our view this focus is timely. However, it runs up against the familiar problem that strategy, as an activity, is not well defined (Araujo & Easton, 1996; Mintzberg, 1987b; Whittington, 1993), with the result that the empirical net is cast impracticably wide. On one hand, a key feature of strategy as practice is that it extends beyond the organization. As envisaged by Whittington (2000), for example, a comprehensive study of the strategy community would have to embrace the business schools in which strategy is taught, the consulting companies in which strategists are trained and socialised, and the literatures and professional bodies through which they interact, as well as the organizations whose strategies they analyse, critique, enact, develop or change. On the other hand, strategic practice is not restricted to

‘strategists’. If we take account of the possibility of bottom-up (Burgelman & Sayles, 1986; Mintzberg, 1987a) or middle-out (Nonaka, 1988) as well as of top-down strategy formation, almost any activity taking place in an organization may (or may not) be part of strategic practice, whether or not it bears a strategy label.

To be productive, empirical research needs to be guided by theory. The main aim of this paper is to explore what the social theory of practice can tell us about where we might usefully focus empirical research on the practice of strategy. For reasons to be explained in the next section, our main focus will be on Niklas Luhmann’s social systems theory and in particular on his treatment of change within a recursively-reproduced system of practice. We shall focus in particular on Luhmann’s concept of an “episode” or sequence of communications structured in terms of its beginning and ending. Through episodes, we shall argue, organisations are able to suspend their routine structures and routines, creating the opportunity for reflexive strategic practice. This theoretical approach throws new light on the relationship of episodes such as strategy reviews, workshops and awaydays to strategic practice more generally and on their role in organizational and strategic change. It also provides a framework for the systematic analysis of different kinds of episode in terms of particular features of their initiation, conduct and termination.

### **Theories of practice, strategy and change**

Seen from a sociological perspective, strategy presents two distinct faces. On one hand, strategies serve to structure, organize and give meaning to the complex operations of business organizations. They determine what is produced, where it is sold and how it is marketed, how resources are paid for and how they are allocated.

They provide stability and direction, and help firms to cope with the uncertainties of the business environment (Spender, 1989). They shape the routines and discursive structures of an organization and, importantly, they are in turn shaped by these: strategies are recursively reproduced by the very practices they produce. On the other hand, the discourses of strategy and the role-definitions of strategists are very largely concerned with change. Strategy, for practitioners as well as academics, is explicitly concerned with the future, and with what “should be” rather than with what is.

Part of the reason for contextualising strategy within a theory of practice is to focus attention specifically on its routine and routinizing elements, which have so far been relatively neglected by researchers (Whittington, 2000). We cannot escape the fact, however, that even in its routine aspects strategy is explicitly concerned with the creation of intentional, often radical change. Moreover, if strategy is to be conceptualised as a social practice, the other activities of a business organization must, for consistency, be similarly conceptualised. In adopting a theory of practice in this context we therefore encounter in a particularly acute form one of the general problems faced by all such theories: how, other than by incremental adaptation to external pressures or incremental changes arising as a by-product of the systems of reproduction (as language, for example, changes with each application), can the structures and institutions of recursively self-reproducing systems, in this case organizations, ever change?

This problem appears in practical guise in the existing strategy and organization literatures on the difficulty of reflective strategic change, where the familiar explanations in terms of defensive routines (Argyris, 1985), groupthink (Janis, 1982), strategic drift and the cultural web (Johnson, 1987) all refer in one way or another to the self-reproducing nature of organizational practices and discourses.

The conventional solution to the problem, framed in terms of ‘unfreezing’ and ‘refreezing’ (Lewin, 1952), ‘second-order change’ (Watzlawick et al., 1974) or ‘double-loop learning’ (Argyris & Schon, 1978), follows early theorists of practice such as Durkheim (1973), Dewey (1922) and Mead (1934) in positing a higher level reflexive discourse alongside the recursively constituted non-reflexive discourses of organizational practice. Indeed strategy as a process is often treated implicitly as a kind of reflexive monitoring in which organizational routines are viewed and acted upon from outside. However, the interaction between the two levels of discourse remains problematic, both in theory and in practice. In the first place, even when fulfilling an explicitly strategic role, managers tend to remain trapped in the existing organizational mindset (Grinyer & McKiernan, 1990; Johnson, 1987). Organizations find it very difficult to generate higher-level discourses. To put it another way, they find it difficult to establish strategic practices that are capable of transcending the structural constraints of the organization. In the second place, even when an effective higher-level discourse is generated, the proposals for strategic change that result can be very hard to enact. The self-reproducing nature of organizational structures and routines makes them inherently resistant to externally imposed change (Grinyer & McKiernan, 1990; Johnson, 1990). Moreover, while these problems have been explored mainly within the context of revolutionary top-down models of the strategy process, they can be equally relevant to evolutionary or bottom-up processes. For the sake of simplicity, our main focus in this paper will be on the strategy processes involving top management, but essentially the same problems recur whenever a switch has to be made between operational and strategic modes of practice, wherever in the organisation that occurs.

Under certain circumstances these problems may be overcome by means of externally imposed or enforced change. In a takeover or turnaround situation, for example, a new CEO may draw on strategy practices external to the organization and impose organizational changes that are substantial enough to effectively disable the existing structures and routines. In general, however, managers would prefer to avoid such situations and to generate strategic change themselves, either by relying on the organization's own resources or by drawing on those of external consultants. In these circumstances the use of external consultants can be seen as a way of facilitating the generation of a higher-level discourse, by separating the strategic practice from the mainstream organizational structure and routines and drawing instead on those of the consulting practice. But this separation works the other way too: it also limits the impact of the strategic discourse on the organization (Pettigrew, 1985).

For the most part, theorists of practice have been concerned with continuity rather than change, and have given little attention to the question of how, if at all, the structures and routines of an organization or other social system might be significantly altered. Of the theorists invoked by the advocates of a practice perspective on strategy only Giddens (1984) has given significant attention to the question of change, and his account, which focuses on the role of politics in transferring practices developed in one part of a complex pluralistic society to another (see also Pettigrew, 1973, and Mintzberg, 1983 for similar analyses in a management context), offers no apparent insights to the problems enumerated above. One theorist has, however, taken the problem of change in a recursively-produced system of practice seriously, and that is Niklas Luhmann.

Luhmann's social systems theory is not generally counted among theories of practice, but it is perhaps the most rigorous attempt yet at a theory of self-reproducing

social systems. Part of its rigour lies in its determined exclusion from a social system, defined as a system of communications, of any psychological elements. There is no place in the theory for thought, reflective or otherwise, or for individual motivation and intention, and in this respect it does not obviously meet Whittington's (2000) criterion of "taking strategists seriously". It does, however, take seriously the sociologically observable practices and routines of strategists and other actors, and the socially reproduced nature of these practices. It also takes seriously the problem of change. Indeed for Luhmann, "structural change presupposes self-maintenance; this much has always been clear. It follows that change and preservation cannot be explained by different theories (...) but that every theory must always deal with both." (Luhmann, 1995, p.347) Finally, although Luhmann's main focus was upon the social system of society as a whole, he also applied his theory explicitly (as Giddens, for example, has not) to the system of an organization (Luhmann, 1992a, 1993, 2000).

### **Social systems theory and the concept of 'episode'**

According to Luhmann (1986; 1995), the basic element of all social systems is communication, or the synthesis of utterance (including physical movements as well as speech or writing), information and understanding. Communication is a social (for Luhmann, the only genuinely social) operation, which cannot be causally reduced to individual action (Luhmann 1997, pp. 65-66). In particular, although in everyday life we commonly identify communications with the intentions and utterances of individual actors, this is in fact a gross simplification. Communication requires an interaction between at least two individuals, and from a sociological perspective it is the understanding rather than the utterance or intention that determines the significance or outcome of the communication (Von Foerster and Pörksen, 1998, p.



100). Moreover this understanding is itself an abstraction, known only indirectly through its impact on further communications (Bateson 1972, p. 315). Social systems for Luhmann are not, therefore, systems of action, structured in terms of the thoughts and behaviours of individual actors, but systems of communications in which the communications themselves determine what further communications occur.

This conceptualisation of social systems as composed of communications has implications for the question of change. Since communications cannot be treated as the products of individual actors but only as the products of the communication processes themselves, social change has to be explained on the basis of the logic of the communication system. It is the communication system itself that determines, through its autopoietic (i.e. self-reproducing) processes, whether and for what reasons communications come about that lead to changes in the communication system. The mechanism for this, in Luhmann's theory, is an evolutionary model of social change (societal or organisational), in which the communicative system generates random mutations and then 'selects' changes from these. This model is applied to both incremental, first order change and, more interestingly, to reflexive, second order changes, in which the social system creates the possibility for reflexive communications through which the organisation or society can question its own structures.

A particularly interesting feature of Luhmann's theory of change is his concept of an 'episode', or sequence of events structured in terms of a beginning and an ending. On account of their structuring, episodes provide opportunities for the normal constraints of communicative practice to be suspended and alternative communicative practices explored. They thus provide a social mechanism by which reflective discourses can be pursued within the social system, but without necessarily disrupting

the practices and routines by which that system is maintained. Luhmann introduces his concept of episode in the context of societal change, and it does not feature explicitly in his accounts of organisations. It is apparent from his discussions of the similarities between the two types of social system, however, that the concept can also be applied in the context of organisational change (Luhmann, 2000, and see Seidl, 2000, for a discussion of this point).

The idea that organisational change might be explained through an evolutionary process of mutation and selection was put forward by Miller (1982 and Miller & Friesen, 1984) as a possible foundation for a configurational theory of revolutionary quantum change, but was not developed in any detail. A number of other writers, including Giddens (1984) and Kirsch (1979, 1988, and Kirsch et al., 1979) have also used concepts of an episode in the analysis of social or organisational change. However, these are typically analytical conceptions used to describe characteristic sequences observed within the development of a society or organisation. Giddens, for example (1984, p.246), writes of the emergence of an agrarian state as a typical episode in societal development, and in the same sense the emergence of a functional structure might also be seen as a typical episode in the life history of an organisation. For Luhmann, in contrast, an episode is generic structural feature of all social systems. A Luhmannian episode is conceptualised as a sequence of communications ‘marked’ by a beginning and an ending. While any sequence can be said to start at some point and end at another point, the essential characteristic of an episode is that the ‘distinction’ of beginning and ending is used not (only) by an *external* observer to observe the sequence, but by the communications within the sequence (Luhmann, 1990). The communications within the episode take into account

the fact that the sequence has started at some point and will come to an end at another, employing the distinction between beginning and ending as a kind of orientation.

A typical example of an episode is a meeting, where the communication process is pre-structured in terms of a beginning and an ending at some (more or less pre-defined) stage or time. Aware of its temporal restriction, the communication processes develops differently from how it would under the assumption that it could continue indeterminately – even if it were in fact to come to an end at the same time. (In the language of action, people behave differently when an interaction is time-limited from how they do when it is indeterminate.) In this sense, the envisioned ending to the interaction provides a criterion for the selection of communications, and in so far as the communications within an episode are focused on an ending Luhmann (1990, p. 21) speaks of episodic processes as being teleological. An important aspect of this conceptualisation is that although the communications taking place within the episode refer to an ending, the ending does not have to be defined in advance; the actions are focused simply on *an* ending, and sometimes even only on the *fact* that there will be an ending to the process. The concrete criteria for what can serve as an ending of an episode can be established and revised during the episode.

There are basically two forms of finalisation (i.e. focus on the ending): goal-orientation and time-limitation. Although these are usually connected in practice, they can be distinguished analytically. An episode is goal-oriented when the communications within it are focused on the achievement of a specified goal. Meeting the goal in this sense serves as the envisioned ending to the episode. The goal is used as a selection criterion for the communications, i.e. communications are selected and interpreted on the basis of their contribution to meeting the goal. The episode can also be terminated, however, if the goal cannot be achieved. In this case the episode will

be terminated not by the meeting of the goal but by the acceptance that that it will not be possible (Luhmann, 1992b, p. 582; Luhmann, 1990, pp. 21-22). The important point here is that the episode can be terminated whether the goal is achieved or not; it is clear that either the meeting of the goal or the realisation of its impossibility will serve as an end to the episode (Luhmann, 1992b, p. 486, fn 206).

The second form of finalisation is time-limitation. Independently of any goal orientation there can be a time limit to the processes within an episode. The end of the episode in this case is simply marked by a time and date (Luhmann, 1990, p. 22). As in the case of goal-orientation, the specific point in time that is to determine the end of the episode does not have to be fixed in advance; it may be decided only during the episode. Similarly, a timing that has been set may be changed. Time limitation may define single episodes, or planned sequences of episodes (Luhmann, 1997, p. 818). The time limit may be set by reference to calendar time (or clock time) or by reference to specific events taking place outside the episode (e.g. a meeting might be scheduled to continue until such time as the members are needed somewhere else).

Often the two forms of finalisation are combined. In such cases actions within the episode are focussed both on the achievement of a specific goal and on a time limit. The combination of the two rules can act both as an additional assurance that the episode will be terminated and as additional pressure for the achievement of a goal. Thus the episode might be defined primarily in terms of goal achievement, but with the qualification that if the goal is not achieved by a certain point in time the episode will nevertheless be terminated. The introduction of such a time limit might provide valuable support for the attempt to reach the goal, focusing communications on the goal and discouraging the discussion of issues that are of secondary importance to the goal achievement. Mezias et al. (2000, p.81) note, for example, in discussing

strategic change, that “Agreement on a direction forward sometimes occurs only when managers face inescapable deadlines.” It might also lead to the replacement of an unrealistic goal by another more realistically achievable one. Or it might, on the contrary, support attempts to block achievement of any goal. Again, the communications within an episode may switch between time-orientation and goal-orientation. A time limit might be suspended in order for an important goal to be achieved, or a goal orientation might be suspended in favour of a time limit, if the chosen goal becomes less interesting or attractive.

In all of this it is important to bear in mind that starting or finishing an episode is itself a communicative event that has to be explained on the basis of the logic of the communication system; it cannot be causally attributed to an individual actor. In Luhmann’s theory episodes can be set up either spontaneously (that is, from a system perspective, as a matter of chance) or routinely, on a periodic basis (e.g. a monthly meeting), or as a routine response to particular circumstances (e.g. an enquiry into the loss of a major customer). The termination can also be either spontaneous or, as we have already discussed, determined by the routines outside or inside the episode (Cf. Zu Knyphausen, 1988, p. 311; Trux, Müller, et al., 1984).

So far we have only looked at one side of 'beginning' and 'ending': *after* the beginning and *before* the ending have taken place. However, beginning and ending each have *two* sides. The beginning is not only the beginning of an episode, but also the ending of something that takes place *before* the episode. Similarly, the ending is both the ending of an episode and the beginning of something that takes place *after* the episode. In fact, for Luhmann (1990), both beginning and ending can be defined as ‘distinctions’ between before and after. In this sense the beginning and ending of an episode create an inside/outside difference between the sequence of communications

within an episode and the communications that take place before and after it. What, then, does this difference between inside and outside consist of: what is different inside the episode from outside it? It is not enough simply to say that the communications inside and outside are different. That would be a truism, as any concrete communication is unique and thus different from any other communication (Luhmann, 1995). Instead, Luhmann (1990) argues that it is the structures of communication that are different – where structure is that which both enables and restricts communications. During an episode we have different structures or restrictions from those before or after the episode (and, indeed, from those elsewhere in the system at the time of the episode), and the beginning and ending of the episode can be seen as the points at which the restrictions are changed. With the beginning of an episode specific restrictions become effective (or ineffective) that again become ineffective (or effective) with the ending (Luhmann, 1990). One restriction that is introduced at the beginning of an episode is the focus on an ending, which we have already discussed. But apart from that all sorts of different restrictions can be introduced or suspended at the beginning of an episode. With the end of the episode all the restrictions that were particular to the episode become invalid. Thus, in the form of episodes, a system can constantly change its structures, introducing different structures for limited time periods only, depending on the particular requirements of the situation (Cf. Luhmann, 1990).

It is important to recognise that there is nothing unusual or extraordinary about episodes; indeed most organisational processes take place in episodes of one sort or other. The basic function of episodes is simply to make it possible to suspend and replace structures for a certain time period. Moreover the concept of episode doesn't in itself say anything about the kind of structures that are changed and how they are

changed. Most importantly, it doesn't say anything about the relation or coupling between the internal and external structures and their respective operations. This relation can range from very tight to very loose coupling. If the structures of the episode are determined from outside the episode, i.e. if the wider system determines what structures are to be suspended and by what other structures they are to be replaced, the episodic processes will be relatively tightly integrated with the external processes. Such forms of episode are typical of operative processes, e.g. a stock check or the maintenance of a machine. If on the other hand the episode selects its own structures, i.e. if the episodic processes are self-organising, the episode and the wider system will be only loosely coupled. Of course, such a loose coupling between episode and wider system does not mean complete decoupling. Communications inside and outside the episode do influence each other but not systematically – in accordance with Orton and Weick's (1990) concept of loose coupling as a dialectical concept combining the idea of coupling and decoupling. It is this second form of episode that is of particular interest in connection with strategic change, as it provides a structural basis for reflexive strategic discourses.

Of course, to say that the episode and the greater system are loosely coupled begs the question of *how* they are coupled, and to complete Luhmann's theory of change we also need to indicate how the structures peculiar to the episode are selected and how any changes to the operating system generated by an episode are taken back into the wider system. This will be easier, however, if we return to the specific context of strategic organizational change and the episode as part of an organization's routine strategy processes.

## **Episodes in strategic change**

Having discussed the concept of episode in general in the last section, we now want to look at the significance of this concept for conceptualising strategic change and at the relationships between strategic and operational practices. The concept of episode, we shall argue, helps us to understand how an organisation can change the very structures on the basis of which it is reproduced. By creating episodes the organisation can distance itself from itself in such a way as to allow it to observe itself and from that position initiate a change of its structures.

Following Lewin (1952), this is usually expressed in terms of a change of cognition. As we have already noted, a precondition of strategic change is a change of context from which the organisation is observed. Doz and Prahalad (1987), for example, observe that a transformation process “usually requires [a] stepping out of the existing management process – since these processes are set to sustain the ‘old’ cognitive perspective” (p. 75). If we consider strategising as a social rather than a psychic phenomenon this implies a switch in the context of *communication*, and in this sense Roos and Von Krogh (1996) distinguish between operational and strategic ‘conversations’.

Such a switch of context can be conceptualised in terms of episodes. Thus the beginning and ending of ‘strategic conversations’ or other strategising episodes (meetings, workshops, reviews, etc.) can be understood as temporal points at which the context is switched: the beginning of the episode constitutes a switch from the existing (operational) context into the strategic context and the end an analogous switch back from the strategic context into the existing (operational) context. The important point is that the switch into the new context is temporary and that the established structures are not destroyed by the switch but merely suspended. The



episodic strategic communications are aware of their exceptional character and take into account that they will come to an end at some point, after which a switch back into the established (operational) context, with its established structures, will take place.

Two questions then arise: (1) what structures are changed at the beginning of 'strategising' episodes? and (2) how are they changed? The structures to be changed are most obviously discursive structures, including conceptual and thematic frameworks, reference points, shared assumptions and so forth. However, organisational structures, such as those relating to the spatio-temporal structuring of communications and the organisational hierarchy (what communications can legitimately take place when and between whom), might also be changed for the episode. Thus Roos and Von Krogh (1996) stress that the outcome of the strategy process depends to a great extent on factors like "who talks to whom, why they talk, what they talk about, and when these conversations take place" (p. 55). The influence of such a change of organising structures at the beginning of an episode can take various forms. The change may, for example, directly affect the discursive structures. If all those involved are allowed to voice their concerns, a specific topic will be discussed differently from when only the more senior staff are allowed to voice any criticisms. Alternatively, the change of organising structures might have a more symbolic value, *marking* the switch between discursive structures. For example, an out of hours meeting or change of physical location might symbolise a switch to a different context of communication. Convening meetings off-site can indicate to the participants the suspension of the established rules of behaviour and minimise the relevance of hierarchical or departmental, divisional or functional differences (Mezias

et al., 2001, p.85). Similarly, at the end of the episode, a move back to the office indicates that the established rules have to be respected again.

The question as to how the structures of a strategising episode are determined is more difficult. Evidently they cannot be determined entirely by the organisation, as the processes within the episode would then just reproduce existing routines, so how else can they be determined? The first point to note here is that business organizations are not, in most cases, closed systems. In many instances strategic change follows the arrival of a new CEO or other leadership figure recruited from outside the organisation (Johnson, 1992; Grinyer, Mayes & McKiernan, 1988). More routinely, it is commonplace to involve external consultants or facilitators in the strategic practices of an organisation (Pettigrew, 1985; Mezias et al., 2001). In such cases the outsiders bring with them new discursive structures and, through their presence and involvement, disrupt and replace the organisational structures of hierarchy and communication (see for example Pettigrew, 1985; Weber, 1998). All that the organisation needs to do internally is to create the possibility of suspending the existing structures, and in Luhmann's theory this is precisely what episodes achieve.

In the absence of such external interventions, the structuring of episodes can follow, in Luhmann's theory, from the self-organisation of the processes within the episode (Luhmann, 1995). Through the suspension of existing structures a space is created within an episode for the spontaneous (and, from the organisation's perspective, random) development of structures that are not directly derived from the established structures of the organisation. To put it another way, the suspension of structures creates the ambiguity that makes a self-organising process possible. This ties in with the observation of many strategy researchers (Mintzberg, 1978; Quinn, 1988; Fredrickson, 1983; Hampden-Turner, 1993; Pettigrew and Whipp, 1991) that

one of the defining characteristics of strategic change processes is ambiguity. We may also observe empirically that a great part of the time of strategy processes is often spent deciding on new structures for the processes, structures that may be very different from those that are characteristic of the organisation as a whole (see e.g. Roos and Von Krogh, 1996).

Even without external influences, then, the creation of a strategic episode opens the way for new and unpredictable communication structures, for new strategic discourses. By containing these in an episode, however, the organization as a whole retains some kind of control over them. At the end of the episode the self-organising structures of the episode (as far as they have developed) are themselves suspended and the established structures of the wider system reinstated. In the case of deadlock or failure the episode can be terminated without jeopardising the rest of the organisation:

If one has criteria for termination at ones disposal, one can start something without thereby binding energy long term. One can undertake much more, if one knows that, and how, one can end it. (Luhmann, 1992b, p. 582; our translation)

However, the beginning and ending are not only points of separation between an episode and a wider system. They are also points of connection, and it is this that becomes important in transferring the products of an episode back into the organisation as a whole. At the beginning the contextual factors for the self-organising process within the episode are set. The beginning for example determines what participants are to take part, what issues are to be discussed, what information is to be made available, and so on. Through the setting of the initial context factors the wider

system gives direction to (without determining) the self-organising processes within the episode and, most importantly, ensures a focus on strategy.

At the ending, the same contextual factors influence the impact of the episode on the wider system. In many cases, the ending of the episode may terminate the episodic processes in such a way as not to have any effect at all. In cases in which the processes within an episode lead to no results or become paralysed, an abrupt ending of the episode without any repercussions outside it may be functional. However we can also observe empirically that the results of strategic workshops or planning committees are often elaborately documented, but rather than being read and taken notice of they are filed and forgotten. On the other hand, episodic processes can sometimes have a very strong influence on processes going on outside. The participants of the episode may be given powers to implement the 'results' of the episode after it has finished, or the results of the strategic discourses may be documented and the relevant documents acted on by others.

What then determines whether plans for strategic change produced by a strategising episode are taken back into the wider system? Within Luhmann's theory such plans can be treated as evolutionary variations that, once generated, are exposed to a multi-stage selection process. The first stage, which Luhmann calls latent selection (1992b, p.577; 2000, p.352), determines whether or not any connection is established between the communications of the episode and those of the wider system. This is mainly a function of chance, but it can be influenced both by the mechanisms set up by the system to receive the results of the episode (e.g. prior commitments to formal or informal presentations) and by the way in which the results of the episode are communicated to the system (e.g. presentations or documentation).

The second stage, which Luhmann calls manifest selection, can take place only after a positive latent selection has occurred and concerns an explicit decision to either accept or reject the new strategy. This is again, from a system perspective, a function mainly of chance, but it can again be influenced both by prior commitments of the wider system and by the particular form of the episodic communications.

In the third stage, which corresponds to strategy implementation, the operating structures are revised and restabilised around the new strategy. Here selection is a function of the operational survival of manifestly selected strategies within the wider system. It is influenced, for example, by the operational viability of the strategy, and by the communicative links between the processes of the episode and those of the parts of the operating system that are critical for implementation.

### **Luhmannian episodes and strategic routine**

The importance of strategic episodes as mechanisms for change has long been recognised in both the academic and the practitioner literatures on strategic change (e.g. Johnson, 1987; Mezias et al., 2001; Pettigrew, 1985; Roos & Von Krogh, 1996; Weber, 1998). Board-level strategy reviews, strategy working parties, ‘awaydays’ and facilitated off-site workshops have all become part of the routine practice of strategic management. However our application of Luhmann’s theory casts new light on the role of such episodes in the organization and on their relationship to strategic practice more generally. As we shall see in the next section, it also provides a framework for their *systematic* analysis.

Luhmann’s theory as applied here offers four specific insights to the nature and function of strategic episodes. The first is that they are a necessary and routine

part of organizational life. Strategic episodes are generally treated in the literature as exceptional events. For example, the longstanding failure of a strategy is recognised only when the change of environment provided by an off-site review allows a critical voice to be ‘heard’ for the first time. A new leader uses externally facilitated workshops to create an environment of critical reflection, or uses sporting or leisure activities to create an arena in which people can express their views without some of the constraints of hierarchy. ‘Successful’ episodes, which lead to identifiable strategic changes, may indeed be exceptional, but an important implication of Luhmann’s theory is that we should view strategic episodes in general as a routine element of organizational life. From a social systems perspective, the routine suspension of normal operating structures (the routine suspension of normal routines) is essential to the long-term survival of an organization and an integral part of its structure.

The second insight is that strategic episodes are important not just for changing strategies but also for confirming and reinforcing them. An exceptionalist view of episodes encourages us to see non-change as failure, but as we noted earlier strategy also provides an organisation with stability and direction. Even though the operating structures of an organisation are, in Luhmann’s theory, self-reinforcing, they are nevertheless subject to random perturbations, leading to incremental (first-order) changes that may or may not be consistent with the existing strategy. Strategic episodes are the mechanism by which such changes are reflexively monitored, not just to identify situations where the existing strategy may no longer be appropriate (i.e. where the changes reflect environmental changes that call for a change in strategy) but also to realign the organization, where appropriate, with the existing strategy. A strategic episode that results in a positive confirmation of strategy is just as important for the organization’s well-being as one that results in a positive change.

The third insight, which again challenges the exceptionalist view, is that for the line management of an organization, strategic episodes are the *routine* focus of strategic practice. For managers whose primary activities lie within the operating systems, ‘strategic practice’ consists precisely, under normal conditions, of their participation in a range of routine formal and informal strategic episodes, such as annual strategy reviews or weekly pub lunches. It is only through such episodes that line managers can escape the constraints of the operating structures and engage routinely in strategic practice.

The fourth insight concerns the relationship between organizational strategy and the practices of ‘strategists’. In many organizations, ‘strategy practice’ exists most obviously outside line management, in the work of a strategic planning department or a group of external strategy consultants. In such cases, however, the micro-practices of strategy are dominated by the specific structures and routines of the department or consulting firm concerned, and not by the operating structures of the organization as a whole. This separation enables the strategists to be strategic, in the sense of reflecting critically on the organization structure, but at the cost of severing their communications with the operating system. The result is that the organization still relies on strategic episodes if the reflections of the strategists are to be effectively communicated. Only by escaping from their operating routines through such episodes can line management engage with the reflexive communications of the strategists. From a research perspective this means that while it is evidently important to understand the routines and micro-practices of strategic planners and consultants, the importance of that understanding lies largely in its contribution to our understanding of the communications that take place within strategic episodes. For example, in a strategy review, the strategists deliver and the line managers respond to a

presentation. If our primary interest is in how the strategy of the organization is changed or confirmed, what matter are not just the content of the presentation but also, above all, the context in which it takes place and the types of communication that context makes possible.

### **A framework for analysis**

This last observation leads us to the other main contribution of Luhmann's theory to the study of strategic practice. Although strategic episodes have been discussed by a number of researchers, they have so far been discussed either as a feature of specific historical narratives (e.g. Johnson, 1987; Pettigrew, 1985) or as a feature of prescriptive proposals for change management (e.g. Mezias et al., 2001). Reflecting the exceptionalist bias we noted earlier, they have been subject to very little in the way of systematic analysis. Luhmann's theory gives us a framework for a more systematic study by focussing attention on three critical aspects of episodes: (1) the ways in which they are set up, within which the focus is on the determination of which structures are or are not suspended and on the necessary 'de-coupling' of the episode from the organization as a whole; (2) the ways in which they are terminated, within which the focus is on the mechanisms for 're-coupling' the strategic reflection with the organization; (3) the ways in which they are conducted, within which the focus is on the discourses generated and the type of reflection achieved. In each case the theory helps us to identify particular issues relevant to the strategic change process, providing a foundation both for the analysis of specific kinds of episodes (workshops, reviews, board meetings, etc.) and for a comparative analysis of alternative episodic mechanisms.



### *Initiation.*

From the perspective of Luhmann's theory the set-up of a strategic episode is of critical importance if the necessary de-coupling of the episode from the wider system is to be achieved. If operational routines are to give way to strategic practice, the beginning of the episode must clearly indicate and, moreover, legitimate a switch of context. If it does not, the operational routines will simply reproduce themselves and communications will remain locked in the operational realm: Roos and von Krogh (1996), for example, note several instances in which supposedly strategic conversations remained firmly on the operational level. Among the factors that are potentially important here are the choice of participants, the specification of goals or outputs, the time limits and scheduling of the episode, and the explicit suspension of organisational structures, for example through changes in dress code, off-site locations, or the pre-planned inclusion of social (organisationally non-hierarchical) interactions. The familiar observation that strategic workshops or reviews are more effective when conducted off-site and preceded by dinner and an overnight stay can be explained in these terms, as the organisational structures are more clearly suspended and the switch of context more clearly marked and legitimated. From a theoretical point of view, moreover, the physical and spatial separation of the episode (in terms of location, dress and communicative norms) reinforces the temporal separation. The discourses initiated in the episode may continue in some way back in the office, or in further, related episodes, but the switch back to the normal work location, dress and form of address clearly marks the temporal ending of the particular episode.

Decoupling the episode from the greater system is necessary for strategic reflection, but it is not sufficient, as the suspension of the normal structures could just result in paralysis. Without any ground rules, communication might cease altogether or return, after a period of embarrassment, to the comfort zone of the normal routines. This explains why external facilitation can play such a critical role in strategic episodes. Facilitators cannot suspend the normal operating routines – only the organisation can do that – but they can assist the self-organising process of the episode, helping to establish temporary routines that are suited to the purpose of strategic reflection. Roos and Von Krogh (1996) note, for example, that

[strategic] conversations cannot be forced, but one can nurture conversations by making the surrounding where the conversations take place as positive as possible. This often means that an *energizer* is needed, at least initially, in order to legitimize the conversation, give it direction and to a certain extent decide on the fundamental rules. (p. 79).

From different perspectives, Pettigrew (1985) and Mezias et al. (2001) have also stressed the importance of having an external facilitator to help people complete the transition into strategic mode.

### *Termination.*

For a strategic episode to be effective it not only has to be de-coupled from the organisation at the beginning but also re-coupled at the end, in such a way as to allow some of its proposals to at least be considered for selection. Luhmann's theory suggests a particular difficulty here, for it is the separation between episode and wider system that makes strategic reflection possible and that separation is marked as much

by the ending as by the beginning. The ending has both to protect the routine practices of the main system from the potentially disruptive effects of re-coupling and at the same time to create the opportunity for such re-coupling. A key feature here would seem to be the establishment of appropriate goals for the episode (in terms of reports or recommendations) and an appropriate timing for its termination, so as to ensure that the episode feeds into decision-making routines that are capable of handling it and not into routines to which it could cause damage. More formal episodes may be set up in advance to deliver a given product at a given time, such as a report and recommendations to a particular board meeting, so that in that particular respect the scope for self-organisation is limited. But such requirements can also limit the scope for reflexive strategising, so the balance is often a difficult one. Informal episodes, that are not pre-planned, are much less easy to control in this respect, giving them great creative but also great disruptive potential. This suggests that organisations may try to channel and contain such episodes (for example the skunk works of Peters and Waterman's 1982 recipe for innovative cultures) or limit their scope for re-coupling, for example to communication channels through senior management gatekeepers.

*Conduct.* While the beginning and ending of an episode are of particular importance in Luhmann's theory, its effectiveness will also depend on how the opportunity for self-organising is used. Of particular interest here are the development of the episode's own structures and routines, and the techniques used (perhaps explicitly, with the help of external facilitators, but also in more subtle ways) to avoid a falling-back on those routines with which the participants are familiar. If an episode is to have any value, it must develop some kind of structure of its own, and in particular a discursive structure within which the participants can communicate effectively. A

number of researchers have recently focused on discursive aspects of strategic change (Barrett, Thomas & Hocevar, 1995; Barry & Elmes, 1997; Westley & Vredenburg, 1996), and taken together with Luhmann's theory this research would seem to suggest the need for linguistic innovation within episodes if strategies are to be reflexively monitored and changed. This innovation might come from 'strategists' connecting with line management through the episode, or from the extra-organisational experiences of the participants.

Luhmann's theory also points to the importance of achieving the right kind of reflection within an episode and to the difficulty of combining strategic change with the ritual element of strategy processes. We have already noted that strategy episodes play an important role in the confirmation of strategy as well in its change, but this confirmation can be achieved in two different ways. It can either follow a process of reflection in which the existing strategy is challenged by being *compared* with alternatives, or one in which the existing strategy is reinforced by being *contrasted* with alternatives (Spencer Brown, 1979). In the first case, the process is exactly the same as that which leads to change. The process is open to new possibilities but ultimately decides against them. In the second case, alternative possibilities are not genuinely considered but are used simply to demarcate the existing 'right' way of doing things from other 'wrong' ways. The process serves a ritual or ceremonial function, like that of a religious rite, rather than a change function (Luhmann, 1995, p.452).

The problem here is that organisations, like societies, need ritual elements to survive and cohere (see for example Thompson, 1967; Meyer & Rowan, 1977), and because both change and ritual tend to be entrusted to the same 'priestly' elite, the two can easily become confused. This can be seen most clearly in the case of the regular

meetings of the board of directors. These episodes have their own clearly defined routines and spatial, temporal and hierarchical structures that differentiate them very clearly from the structures and routines of the organisation as a whole. This creates the possibility of strategic reflection, and such reflection is indeed a key aspect of the board's role. But the board meetings also serve a ritual function, communicating to the organisation and its stakeholders that all is well and under control, and for this purpose the separation of structures and routines marks out the meetings as a 'sacred' territory within which ritual observance, not critical reflection, is required. It has recently become quite common practice for the boards of large companies to supplement their regular meetings with their own annual strategy awaydays, creating episodes within episodes, but these tend to be just a longer meeting: they are rarely set up in such a way as to effectively suspend the normal board routines.

### **Concluding remarks and implications for further research**

Luhmann's social systems theory doesn't *solve* the problems of double loop learning and strategic change any more than do other theories, for example of social cognition, and we make no claims here as to its superiority in that respect. What it does do, however, is provide a sociologically rigorous way of isolating and exploring these problems. That it is a sociological theory is in our view significant, as the problems are essentially social problems. Previous work has focused very much on their cognitive psychological aspect, but strategy and strategic change are very much social, not individual phenomena. What happens in people's minds is undoubtedly interesting, and Luhmann's theory does not deny the existence or importance of actors' cognitions and intentions, but it is what happens in organisations that is of

concern here, and from his perspective that is a product of social systems of communications, not of psychic systems of cognitions.

At a more practical level, the approach taken here focuses attention on a range of organisational phenomena, strategic episodes, that are of evident importance but have never been subject to the kind of systematic analysis that has long been applied to operating routines. Some types of strategic episodes are now ubiquitous features of corporate life and surely deserving of closer study. For example, many companies now carry out regular strategic reviews, in which the top management team are encouraged to switch from operating to strategic mode. How are these reviews set up? Who participates and how are the participants determined? Which structures and routines are suspended and how? What arrangements are made for their facilitation? What arrangements are made for their termination, and for the recoupling of their communications with the normal operating routines? How do all these vary across different organisational cultures or competitive environments? And how effective are they at generating distinctive reflexive discourses and using these to change or confirm the organisations' strategies?

Strategic reviews carried out by the top management team often feed into board level reviews, which give rise to a similar but slightly different range of questions. For non-executive directors, and to a large extent for the CEO, it is not so much a matter of switching from operating to strategic routines, since they are not normally involved in the operating routines of the organisation. Rather it is a matter of switching from a ritualistic confirmation of strategy to an open questioning of it. In a public company, especially, much of the work of a CEO consists of a ritual communication of the existing strategy to a mixture of internal and external audiences – managers and employees, fund manager, analysts and the press. Much of the work

of the chairman and non-executive directors consists of visibly supporting the CEO. By what mechanisms, then, is this switch achieved, and what distinguishes the situations in which it is achieved from those in which it evidently is not – for example the recent high profile cases of Marks & Spencer and Marconi?

Another example of a common situation where deeper and more systematic study would seem to be called for is the process by which the findings of external strategy consultants are considered by top management. The theory developed here would suggest that these findings can only be communicated, in the full sense of the word, if the communication takes place in what is, for the managers, a strategic episode. But how in practice are consultants' reports communicated? What provision is made for the effective reception of the communication? And what relationship is there between the choice of mechanism and the adoption or otherwise of the findings?

The three examples just given are all of cases in which detailed and systematic empirical study would seem to be worthwhile, but they are not the only such cases. In many organisations strategic practice is pervasive. As noted earlier, we have focused for simplicity on examples from top management processes, but where strategy evolves upwards similar episodes might take place at multiple levels of the organisation. Quite different types of strategic episode, including informal episodes outside the organisation's direct control, may also play a significant part in the strategic change process. As well as examining particular types of episode across organisations, moreover, we also need to look at the effectiveness of different types, or combinations of different types within the same organisation. From skunk works to strategy conferences and from OD workshops to board level reviews, strategic episodes have long been recognised by academics, consultants and practitioners as important features of the strategy process. The theory developed here provides both a

rationale and a framework for their systematic analysis as the core elements of strategy practice.



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