RECONFIGURING FIRM RESOURCES: ARCHITECTURAL INNOVATION AND CORPORATE STRUCTURE

by

C. GALUNIC*
and
K. M. EISENHARDT**

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* Assistant Professor of Organizational Behavior at INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex, France.

** Professor of Organizational Behavior at Stanford University, Palo Alto 94305, USA

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D. Charles Galunic
Asst. Professor of Organization Behavior
INSEAD
Blvd. de Constance
77305 Fontainebleau, France
(33) 1-6072-4385 phone
galunic@insead.fr

Kathleen M. Eisenhardt
Professor of Organization Behavior
Dept. of Industrial Engineering
Stanford University
Palo Alto 94305 USA
1-415-723-1887 phone
kme@leland.stanford.edu

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ABSTRACT

Research in the resource-based theory of the firm has emphasized the competitive advantage of firms developing dynamic capabilities, that is capacities to continuously create and develop novel productive assets. One particular logical motor used in theorizing about such capabilities has been the notion of recombinatorial or architectural innovation, that is where existing components of some system are reconfigured in novel and productive ways. This paper attempts to extend our thinking about such processes within the large, multiunit corporation, a level of analysis that is underexplored in this perspective. Based on an intensive clinical study of a large Fortune 100 high-technology corporation, this paper presents a process model of how resource recombinations may operate at this level. Our findings suggest the usefulness of envisaging corporate divisions as combinations of capabilities and product-market areas of responsibility ("charters") that may be recombined in various ways. This paper presents a general framework for this process and details the logics by which such recombinations can occur. We also explore and develop the idea of "dynamic communities" as a source of dynamic capabilities at the corporate level of analysis.

INTRODUCTION

In recent years, a role commonly prescribed for the firm is that of the developer of dynamic capabilities (Winter, 1987; Amit and Schoemaker, 1993; Henderson and Cockburn, 1994; Henderson, 1994; Iansiti and Clark, 1994; Teece and Pisano, 1994; Lazonick and O'Sullivan, 1995; Conner and Prahalad, 1996; Moran and Ghoshal, 1996; Brown and Eisenhardt, 1997; Teece, Pisano and Shuen, 1997). This view encourages firms not only to appropriate value from the deployment of their resource stocks but also to search out new resources and assets, or new ways of deploying existing resources, that will become the basis for future organizational success. Dynamic capabilities are therefore fundamentally concerned with the development of new productive assets in the firm and are increasingly regarded as a critical source of competitive advantage (Prahalad, 1990; Teece, Pisano and Shuen, 1997). In response, a growing number of studies have emerged to examine such capabilities, including studies into the transfer of knowledge in the firm (Leonard-Barton, 1992; Szulanski, 1993; Zander and Kogut, 1995), the structure of integrative capabilities (Burgelman, 1994; Henderson and Cockburn, 1994; Henderson, 1994; Iansiti and Clark, 1994; Brown and Eisenhardt, 1997), and novel studies of firm innovation processes (Henderson and Clark, 1990; Gersick, 1994; Eisenhardt and Tabrizi, 1995; Damanpour, 1996; Dougherty and Hardy, 1996).

While this research is contributing important and exciting insights into the development of dynamic capabilities, several questions remain. In particular, we note that a good portion of this work is focused on product development processes. Moreover, the level of analysis is often the single-business-unit firm or project level. Relatively less empirical evidence exists on how entire corporations (multiple business firms) engage their broader corporate resources and structures in novelty generating ways (see Ciborra, 1996). A focus on large, multiple business firms is warranted given their prominence and influence in most industrialized nations (Rumelt, Schendel and Teece, 1994). Moreover, while historically their importance was often related to their size per se, such as their ability to achieve large economies of scale and scope (Chandler, 1990; Rumelt and Stopford, 1995), their importance today is based more on their ability to create new value within rapidly changing market and technological environments, where speed, flexibility, and entrepreneurship are

key (Guth and Ginsberg, 1990; Bartlett and Ghoshal, 1993; Goold, Campbell and Alexander, 1994; Rumelt and Stopford, 1995; Galunic and Eisenhardt, 1996).

The purpose of this paper is to explore the dynamic capabilities of large, multiple business firms. In particular, we center our attention on the continuous recombination of corporate resources to address frequently shifting market opportunities. The underlying logic of this study builds on the foundational work of Schumpeter (1934; 1942) and Penrose (1959). Central is Schumpeter's notion of "new combinations" (Schumpeter, 1934:65):

> To produce means to combine materials and forces within our reach. To produce other things, or the same things by a different method, means to combine these materials and forces differently...Development in our sense is then defined by the carrying out of new combinations.

By this, Schumpeter was emphasizing that innovation "consists to a substantial extent of a recombination of conceptual and physical materials that were previously in existence" (Nelson and Winter, 1982:30). Applied to organizations, this view of innovation suggests seeing firms as systems whose component parts (i.e., physical materials, skills, routines, and areas of responsibility) may be integrated in novel ways (Henderson and Cockburn, 1994:67). Penrose in particular did much to further this motor of change within the firm (Penrose, 1959). Viewing the firm as fundamentally consisting of productive resources, Penrose argued that the usefulness of firm resources rests on the situation-specific services that these resources provide. Reconfigure these resources, that is place them in different contexts and new uses or align them with a different combination of other resources, and novel services may be generated.

> The services yielded by resources are a function of the way in which they are used—exactly the same resources when used for different purposes or in different ways and in combination with different types or amounts of other resources provides a different service or set of services. (Penrose, 1959:25)

More recently, scholars of organizational theory and strategic management have incorporated such thinking in useful ways (Tushman and Anderson, 1986; Henderson and Clark, 1990; Nelson, 1991; Kogut and Zander, 1992; Leonard-Barton, 1992; Henderson and Cockburn, 1994; Henderson, 1994; Iansiti and Clark, 1994; Brown and Eisenhardt, 1997; Tushman and O'Reilly, 1997). For example, Henderson and Clark (1990) apply such thinking to the product development level of analysis, displaying how the reconfiguration of product technologies enhances a firm's competitive position. In their conclusions, Henderson and Clark go on to suggest that

"architectural innovation at the firm level may also be a significant issue." (Henderson and Clark, 1990:28)

This paper extends this thinking to the firm level by reporting research on a large, multi-business corporation in the high-technology industry (computing, electronics, and telecommunications) that engages in architectural innovation through the frequent reconfiguration of existing resources. In particular, the executives of this high-technology firm routinely shifted the divisional domains of responsibility among divisions in order to create new advantages in constantly shifting markets. For example, a division that is responsible for the personal computer business could find this business passed to another division while the former division was given responsibility for laptop computing. This process - commonly known among corporate managers as "charter changes" - frequently realigned the match between divisional resources (i.e., the particular skill sets, routines, and administrative practices of a division) and shifting contexts, yielding "new combinations" of divisional resources and product-market responsibilities. Critical to this process was the concept of "charter." A charter was defined by our informants as the product-market domain in which a division actively participated and for which it was responsible within the wider corporate community.[1] One manager said it best:

> A charter is really a time dependent concept, since it is not something that remains forever with the division. Generally, it is a statement of purpose. It includes the task, market, and the customer the division is concerned with. It also tells you something about how the division is linked to the rest of the company, but these things can change.

As the respondent noted, charters were fluid and tradable. The result of this frequent realignment of divisions and their charters was the creation of "novel services" from existing divisional resources (cf. Penrose, 1959). In essence, the "corporate architecture" (i.e., the pairing of divisional resources with product-market charters) was frequently revisited and so this charter change process was a fundamental dynamic capability within the firm for continually revitalizing the corporation in the face of change.

Turning to the substantial literature on the multiunit organizational form, no perspective has addressed systematically such regular reconfiguration of corporate domains. Researchers have examined the fit between corporate strategy and structure (Chandler, 1962; Rumelt, 1974; Williamson, 1975), the fit between SBU strategies and the nature of corporate governance and

control (Gupta, 1987; Govindarajan, 1988; Govindarajan and Fisher, 1990), intracorporate networks, knowledge sharing and SBU integration (Prahalad and Doz, 1987; Bartlett and Ghoshal, 1991; Gupta and Govindarajan, 1991) and corporate entrepreneurship (Burgelman, 1983; Pettigrew, 1985; Guth and Ginsberg, 1990; Jelinek and Schoonhoven, 1990), but the reshuffling of product-market responsibilities amongst a dynamic community of corporate divisions is relatively novel. In previous research, Galunic and Eisenhardt (1996) focused on one aspect of this charter change process by examining how divisions lose their charters, noting that charter losses tended to be the result of failed experimentation, lost focus, and inertia, and that they involved various change dynamics (teleological, natural selection, dialectics). But this focus on charter losses did not really explore the contrasting side of charter changes (charter gains, or how divisions come to adopt new product-market areas) nor did it explore the wider strategic implications and architectural logic of this process.

Given the limited theory on such processes, an inductive field study of charter gains in a major, multinational firm was conducted. This firm competes in a broad portfolio of technology-based businesses (e.g., desktop computing, laptops, high-end laser printing, networking software, etc.). What emerged from our study were three contrasting patterns of charter gains. While each pattern had similar players involved, the dynamics that unfolded were quite different. Charter gains as "new opportunities" were primarily driven by the industry context. In contrast, charter gains as "wars" were primarily the product of divisional rivalry. Finally, charter gains as "foster homes" were emergency charter movements largely orchestrated by corporate executives. As a whole, these charter changes tell the story of how managers at this firm regularly reconfigured the match between divisions and charters, altering the architecture of the firm.

As is typical of inductive research, we begin with a discussion of our inductive, grounded theory building methodology. We then outline the conceptual framework that emerged from our data. We conclude with a discussion of our findings, drawing a series of general observations about the nature of corporate-level dynamic capabilities and a vision of corporations as "dynamic communities."

METHODOLOGY

Research Design and Setting. The research design is multiple-case, allowing a replication logic whereby each case was used to test emerging theoretical insights (Yin, 1989). This method allows for a close correspondence between theory and data, a process whereby the emergent theory is grounded in the data (Glaser and Strauss, 1967; Eisenhardt, 1989). This research strategy is appropriate given the inductive nature of the study and its focus on understanding strategic processes.

This paper is the result of a broader, eighteen month field-study of "charter changes" (company-defined term) in ten divisions, eight domestic and two foreign, of a large, multinational, high-technology corporation based in the United States. "Omni" corporation is a Fortune 100 high-technology firm whose interests lie across a wide, but related, spectrum.[2] The corporation is divided into multiple "groups" and "divisions." Each group consists of related divisions, and each division is treated as a profit center and holds global strategic and operational control over its business.[3] The divisions are distinguished according to product, market (i.e., type of customer such as commercial or consumer, not geography), and technological dimensions (see Table 1).

Divisions were selected for study according to the following criteria: (1) Divisions had experienced one or more recent charter changes (within two years) or else were currently undergoing a charter change; (2) Divisions were selected from different business groups, thus increasing the likelihood of differences in divisional business contexts and thereby increasing the generalizability of findings (5 of Omni's 15 groups were represented); (3) Two divisions were typically sampled per group to allow us to observe the interdivisional dynamics that constitute these charter changes.

Insert Table 1 about here

The unit of analysis was cases of charter gain experienced by divisions. A charter gain occurred when a division was made responsible for a new product-market area (e.g., "hand-held computing" charter, "high-end printing" charter, "Video and Wideband" charter—all company-defined terms). Ten cases of charter gain were documented and are the focus of this paper.[4]

Data Collection. Data were collected through interviews, questionnaires, observations, and

company archives. The main source was semi-structured individual interviews. Informants in the interview process included corporate vice-presidents responsible for the group to which the division belonged, division general managers (one per division), division functional managers (multiple), and occasionally lower level project managers. Also, numerous discussions regarding charter change processes were held with corporate-level staff responsible for organizational design support and who were familiar with the charter change events. Two feedback sessions were also held to gather further insights from informants on charter change processes. Eighty-two informants were interviewed.

Interviews were conducted during a site visit to the division. Informants were briefed beforehand as to the nature of the research and the vast majority of the interviews were tape recorded and transcribed. Notes were written within 24 hours of the interview to retain freshness. Informants were selected on the basis of their involvement in charter changes. Interviews typically lasted 90 minutes, although some interviews went on for several hours. An interview guide was used to conduct the investigations. First, questions were asked regarding the informants history with the company and division, along with their understanding of the division charter, both past and present. Second, the informants were asked to provide a detailed account of the charter change(s). Informants were given freedom to develop the story as they observed it and they were encouraged to relate facts rather than speculation about such things as the motivations of others. We used probing, courtroom style, questions to flesh-out details (e.g., "When did you first hear about the change?", "Who were the key players involved?", "What were the arguments in favor of the change?", "Was the change resisted? How? By whom?" etc.). The final section of the interview guide focused on specific constructs that we thought would be relevant including: division goals, strategy, internal structure, technology, and communication patterns. We supplemented these data with secondary data such as company documents and media publications and with questionnaire data on divisional financial performance as well as interaction patterns such conflict and communication. We also conducted several direct observations of strategy formation sessions.

We combined both retrospective and real time data collection (i.e., the charter change was in progress). Retrospective data collection occurred during 2-3 day site visits to divisions. "Real-time" data collection involved between 3 and 5 site visits to each of the two divisions that we studied in

real-time.

Data analysis. Data analysis used familiar approaches for qualitative, inductive data analysis (Glaser and Strauss, 1967; Miles and Huberman, 1984; Eisenhardt, 1989; Yin, 1989). Analysis began with detailed written accounts and schematic representations of charter gains. First, initial versions of the change story were written immediately after each site visit was completed. These were followed by much more extensive accounts of the change process, making full use of quotations from transcripts and combining accounts of multiple informants. We found high agreement between respondents over critical issues, such as who were the main players and what were the key events. In addition, each respondent typically added additional details that fleshed out the story. Secondary data were useful in confirming or verifying events.

Within case analysis: After construction of the case histories, within case analyses were conducted. These analyses were the basis for developing early constructs surrounding a charter gain as experienced by a division. Significant dimensions emerged in describing each reconfiguration as we followed an iterative process of going into the data for insights, suggesting constructs, dipping back into the data to check for inconsistencies, emerging with refreshed constructs, and so on. These constructs were kept "close to the case" - that is, we described the process in very case-specific terms. When common dimensions of the charter gain process began to emerge as we moved from case to case, we noted these but abstained from further refinement of the emerging dimensions until we finished our analysis of each case and began our cross-case analysis.

Cross-case analysis: Cross-case analysis produced the working framework of the charter gain process. Charter gain cases were compared and contrasted using methods suggested by Miles & Huberman (1984) and Eisenhardt (1989), typically involving the use of tables and matrices to examine the emergent dimensions across the cases and to highlight similarities and differences across the cases. Typically, sets of two or three cases were compared at one time to create constructs and emergent theory. Then these sets were compared with one another. This allowed us to focus deeply on the data before trying to elevate the level of abstraction. Constructs were then lifted to higher levels of abstraction as we compared across the whole sample. We followed this process until we shaped the process model of charter gains that follows.

RECONFIGURING CORPORATE RESOURCES IN OMNI CORPORATION

How do divisions experience charter gains? First, we found that three key forces influenced the patterns of charter change. (Table 2 summarizes the findings.)

(1) Industry-context. Charter changes often reflected changes in the exogenous competitive environment. That is, changes in the marketplace could create opportunities for new charters or the need to shift the competitive approach within existing charters.

(2) Interdivisional dynamics. We found that charter gains in one division could not be understood without considering the domain trajectories of other divisions. In other words, in most charter gain situations, there were several candidates for charter opportunities. Sometimes these divisions were competitors for the same opportunities and sometimes they were collaborators in attempting to make the corporation as a whole more successful. The general point is that charter changes are dynamic, highly interdependent, endogenous processes that require examination of the web of relationships that make up the multi-business firm.

(3) Corporate influence. Charter gains were also affected by the actions of corporate executives. Corporate executives were generally responsible for the charter architecture within Omni. Their involvement, therefore, in charter changes is to be expected (although the extent of their influence in particular situations was found to vary).

Second, we found that although these forces existed in every charter gain, they combined in different ways to create three distinct processes. In the first pattern ("*New Charter Opportunities*") industry-level dynamics played an accentuated role as market opportunities arose and drove the adoption of new charters; in the second ("*Charter Wars*") interdivisional dynamics were particularly powerful in explaining recombination; and in the third pattern ("*Charter Foster Homes*") corporate-level actions were highlighted. This did not mean that the force most strongly identified with a pattern worked alone—all forces were evident, to varying extents, in each pattern. We now turn to analyzing these three patterns.

Insert Table 2 about here.

I. "New Charter Opportunities": Industry-induced reconfigurations

One pattern of reconfiguration occurred as new opportunities for business creation emerged in the marketplace. Charter gains involved the implanting of relatively untried business areas into a division. The process was characterized by: a) new strategic opportunities in the marketplace, b) modestly performing focal (gaining) divisions with underutilized resources, c) the presence of other divisions that could have also executed these charters, sometimes serving as incubators for new business opportunities, and d) orchestration of charter gains by corporate executives. (See Table 3. Sample: MISSION, SPARK, VOYAGEUR, QUEST).

Insert Table 3 about here

Industry Context: Emergent opportunities. Organizations in fast changing marketplaces inevitably encounter new charter opportunities. Within Omni, such new opportunities frequently arose as markets emerged, expanded, collided, and diverged. This was the situation in several of the charter gains (MISSION, SPARK, VOYAGEUR, QUEST) that we studied.

A good example is MISSION. Here a product market niche emerged between a high and low end product lines. MISSION had been providing a high-end product that catered to a very specialized and professional customer base. A fellow division had been providing a low-end offering (small business segment) in a similar product class, the technology being much simpler and far less feature-oriented than MISSION's. A niche emerged in the middle product range ("mainstream office" segment), whose needs required less customization than MISSION's offerings but many more features and greater durability and performance than the low-end product. MISSION was given the charter to attack this emerging opportunity in the middle of the product line, as the corporate executive in charge of MISSION's business grouping summarized:

> Sometimes you can work so hard to [to reduce overlaps between divisions] that you leave this gap that a truck can drive through, and in this case that is what happened... in our attempt to eliminate overlap we end up with a good deal of "underlap" and a big gap for someone, a competitor, to come in and establish a position.

Another example was VOYAGUER. This division was closely involved in the development of a mainstream office technology within Omni. Corporate managers recognized, however, that if VOYAGEUR's technological stream were combined with another technology emerging within Omni (a networking technology that was being developed within another business group), then a

new market area could potentially be developed. Although there was no existing charter for this novel product-market area, corporate managers saw clear market potential for a new business. VOYAGEUR subsequently gained the charter to integrate these two technologies. As one manager emphasized, "The strategy was to pursue the neat opportunities available with our [newer technologies]."

In the case of SPARK a new market opportunity emerged that fitted the division's competencies in product development in the new area. As the group executive said, "Of all the divisions in our group, it (SPARK) had the most complete skill set...SPARK had the most people who were skilled in each of the key development areas." SPARK gained the new charter.

On the surface, the confluence of related divisions with new opportunities explains these charter gains. New market opportunities were generated by a mix of conditions, involving the convergence of technologies, the divergence of market niches, and more generally, the unfolding of markets to reveal enticing new business prospects. The gains were given to divisions that had market and/or technical competencies that could easily be effective in executing these new opportunities. But, our data also reveal that this simple explanation is not complete. It does not, for example, explain why Omni executives did not form a new division to handle these new opportunities or why these opportunities were given to these divisions and not to other viable candidates. In fact, we found within Omni that often several divisions could have received the new charter opportunity, all equally fitting (in a technical sense) the new charters. While on the surface it appears that technically-related divisions were grabbing lucrative new charter opportunities, there were other, more socially informed, selection dynamics at work in determining charter location.

Interdivisional Dynamics.

Gaining Division: Regeneration. In every case, the gaining divisions had a distinctive profile beyond simply having market and/or technical relatedness to the new charter area. These divisions were a) modest-to-weak performers in their current charter areas, b) often faced growth limitations within their existing charters, and c) strongly desired to expand their scope.

First, these divisions were experiencing performance problems. Most often, these appeared in the form of falling sales growth and pressure on profit margins, typically brought about by

shrinking markets and/or greater cost-focused competition. For example, in the cases of SPARK and MISSION, losses were mounting as the divisions could no longer compete with lower-priced competitors, resulting in divisional agitation and low morale. As two SPARK managers noted:

> Performance was pretty crummy really.
>
> SPARK was a pit. It was the worst place in the group... moral was absolutely abysmal in practically every count and a record was set for negative responses [in an employee survey].

Mediocre performance, however, was not simply a symptom of poor operations. Existing charter boundaries sometimes limited these divisions. In the case of VOYAGEUR, their performance problems stemmed largely from the growth limitations of their charter given its positioning within the firm. Their charter was being reduced in scope and profitability by the developmental paths of other divisions. In particular, another division had control over a substitute technology that was capturing the low and middle ends of VOYAGEUR's product range, inhibiting VOYAGEUR managers from expanding in this direction. Moreover, their focal (high-end) marketplace was shrinking, causing managers to feel "trapped" within their current charter, as one manager grimly noted, "You were with the losing team over here—great market share and 'downward' growth!" It is noteworthy that changes in management in these cases were unlikely to bring about dramatic improvement to performance. Instead, these divisions welcomed new charter opportunities as ways of providing new life to their divisions and making better use of their resources.

Similar constraint was felt in QUEST, SPARK and MISSION. For example, MISSION managers complained that their charter was focused on a "niche product" (graphic design community). Although initially lucrative and quick to expand, this relatively focused market rapidly diminished MISSION's growth opportunities—in essence they were large fish but in a "small pond." The aim was to find a larger pond for their skills and resources.

This sentiment was intensified by the strong growth-driven cultures within these divisions, itself an artifact of Omni's strong company-wide emphasis on innovation and development of new businesses, as one QUEST manager summarized:

> "Everybody was encouraged to find growth opportunities. That was the driver."

New charter opportunities, therefore, seemed doubly enticing for these troubled divisions since they were perfect occasions to regenerate latent competencies in the divisions. One corporate executive summarized this sentiment:

> "I think the best for Omni was, in a lot of people's mind, to get aggressive and to treat [new charter opportunities] like it was a real start-up operation that tried to make something different happen....it was a lot of people's shot at making something big happen."

On the whole, therefore, charter gains went to slumping divisions who could use these new business areas to restore performance and to revitalize their skills and resources that were often languishing in their existing businesses.

Other Divisions: Successful, but distracted, rivals. In every case there were other divisions that could have executed these new charters. They had the technical and/or market capability and in some cases had even begun going down the road. They sometimes even had a better fit than the gaining division. Yet these other divisions were typically running highly successful, fast growing businesses that placed their internal systems under great strain. The fact that these divisions were running at full "charter capacity" therefore meant that they could not properly focus on the new opportunities.

For example, both QUEST's and VOYAGEUR's charters were originally being considered at SATURN, a much larger and more successful division with widely acknowledged strength in product development and marketing. However, it was also true that SATURN, containing a multi-billion dollar product line, repeatedly exclaimed that "our hands were full."

> "We were one big business...We knew something was going to happen if we overloaded this." [SATURN manager]

> "It was an interesting idea for Saturn, but they have lots of opportunities that just fall off the plate--they can't do them all." [QUEST manager]

Similar conditions were evident in the gain experienced by MISSION, as one manager explained: "[The other division] has more on their plate than they can handle at this point, and I don't think [our corporate executive] will be expanding their charter at this point. If anything it's probably in the need of refocusing."

Corporate Executives: Bringing the environment in. One could imagine corporate executives playing a role relatively late in the change process, where divisions had set their sites on new business opportunities and turned to corporate executives for approval. However, this was not the case. Instead, the extent of influence of corporate executives in initiating these changes was

unexpectedly high. Corporate influence included envisioning new business areas, searching for potential homes (sometimes initially in the stronger, more obvious, divisions) and then actively pursuing the installation of these charters in the more needy divisions.

In the case of QUEST, for example, the corporate executive was effectively the first one to size-up the new charter opportunity and to understand what it meant for the firm. His concern for the future of QUEST and his perceptiveness of the marketplace pushed him to become the main driver of the ensuing charter change, as a QUEST manager stated:

> "[Our corporate executive] was deeply involved all the way through the project...because it was his baby. It was his idea originally. He drove the dates, he drove just getting the thing out and testing it."

This corporate executive later noted that "what keeps me up at night are new growth areas and new technologies—along with paranoia over changing markets and fear of competitors." His contribution was therefore to think creatively about new business opportunities, not simply to provide control and oversight of divisional ventures and performance.

Similarly, in the case of both SPARK and VOYAGEUR, the corporate executive envisioned the new business charter and lead the charge to have it installed, motivated in these two cases by the opportunity to create a lucrative new business that would leverage the competencies of the divisions and firmly entrench Omni in a new product-market. This executive summarized nicely this charter gain process:

> "The way it develops is a convergence of several things that happen. One, is you look at your range of opportunity- or the fact that you need to pursue another business more effectively than you're doing today- so there's an opportunity that exists. Second, you usually have a situation where a management team or a division is overloaded or lacks focus and therefore that opportunity is not being served. Then, the third issue is that the skills or culture [of the gaining division] match [the new charter opportunity]- that needs to exist. So, when those three things kind of occur, you then decide to make a charter change."

In sum, the combination of busy, successful divisions alongside needy, constrained and motivated divisions and "mother hen" corporate executives led to relatively conflict free charter gains. The competition for these new charters was not intense. These gains were therefore relatively "silent," involving relatively quick and low complexity transfers since charters were not properly embedded in other divisions. But more fundamentally, this pattern of charter gain was the result of the market. As the corporate executive for MISSION noted, "The market is, of course, the major driver [in this charter change process]," providing the cues for reconfiguration. Given that most

internal adaptation is in response to "organizational cues rather than to the environment" (Meyer, 1994:111), and therefore may miss potentially important exogenous trends, the fact that these charter movements were primarily induced by industry forces suggests Omni may be better able to compete and survive in its fast-changing environment. However, while playing a smaller role, interdivisional dynamics were not insignificant. The exogenous marketplace alone could not decide where these opportunities were operationalized. Charter change decisions involved comparisons between divisions, in terms of the relative fitness, needs, and capacities of potential divisions to serve the new markets. In other words, in adopting new charters divisions had to worry both about how they would fare against extant competitors as well as how they would compare against fellow divisions. This dynamic became even more pronounced in the next pattern of charter change.

II. "Charter Wars": Competition in Corporate Communities.

A second pattern of recombination occurred as existing charters, within established divisions, were "stolen" by rival divisions. These recombinations involved a highly competitive and political process, fueled by the gaining divisions' desire for charter expansion and the concurrent misfit of these businesses within other divisions (from whom they are stolen). Overall, the charter gain process was characterized by: a) gradual industry-level shifts in the nature of competitiveness, b) the presence of relatively successful, aggressive, and better positioned (gaining) divisions, c) other (losing) divisions that do not pick-up on these trends and misfit the marketplace, and d) corporate executives who watch from the sidelines but engage in implementation to ensure charter transfers. (See Table 4. Sample: GOLIATH, STEALTH, PLUNDER).

Insert Table 4 about here

Industry Context: Market shifts. Markets have a tendency to shift in their demands over time or in the competitive positions that is wise to take. Market shifts in this instance were gradual shifts in the underlying nature of competition that took years to develop. All three charter areas involved in this pattern of recombination experienced such gradual shifts in the nature of competition. Common

symptoms of market change included standardization of technologies, market saturation, industry overcapacity, changing distribution channels, and a greater focus on price competition.

For example, in the charter gained by GOLIATH, the proliferation of standardized technologies and "open system" standards drove down cost structures in the industry. This also brought more attention to price-based competition, punctuated by the occasional episode of price wars. As prices fell and technology standardized, this industry also introduced new distribution channels, as one manager summarized:

> So our strategy at the time was sell our [product]..through our direct sales force. What was happening in [our] industry was that there was this whole new distribution channel being developed, the dealer channel, which started in the US and spread worldwide and we didn't participate in that at all...

In general, the nature of competition went from being innovation focused, with a rapidly expanding marketplace and a premium on new technologies, to cost-focused, with knowledgeable users, technology standards, and a focus on price. In all three cases, these businesses were taken from established divisions and transferred to our three gaining divisions (GOLIATH, STEALTH, and PLUNDER). How and why did these divisions gain these charters?

Interdivisional Dynamics.

Gaining Divisions: Emergent fit and charter politics. Specific actions taken by GOLIATH, STEALTH, and PLUNDER managers, along with the historical paths of these gaining divisions, played a crucial role in the recombination process. For although the losing divisions faltered in their charters and displayed misfit with their respective industries, these divisions could have considered transforming themselves to accommodate the new market conditions. There were three dominant and common characteristics of the gaining divisions: a) a developmental path that better fit the emergent market conditions, b) successful attainment of corporate performance goals within their pre-existing roles, and c) a politically active and effective general manager.

The gaining divisions were all well suited to take over the evolving business areas. First, there was significant relatedness between the charter areas of the focal divisions and the losing divisions, either 'horizontal' relatedness (complimentary products in the same industry, in the case of GOLIATH) or 'vertical' relatedness (different generation of products within a product-line, in the cases of STEALTH and PLUNDER). This was an important antecedent to the charter movements, since to move such well established charters required that divisions speak similar languages. Timing

also played a crucial role—the gaining divisions were better suited to the emerging market conditions at the right time. In particular, strengths in manufacturing and production systems (e.g., design for manufacturability, throughput speeds, etc.), developed as part of their historical cost-focused competitive strategy, better fit the concurrent changes in the industry. These divisions also had capacity to adopt major charters.

Take, for instance, the case of GOLIATH. In the years preceding the charter change, GOLIATH had run into the same industry conditions noted above. Divisional margins were falling as their traditional marketplace (government sector) was shrinking and new markets demanded greater attention to price. Moreover, because other divisions (including the losing division) had traditionally built very similar core products, GOLIATH managers found themselves running into the charters of fellow divisions, as all tried to expand into the same marketplaces. One GOLIATH manager explained the situation:

> When [our industry] was in double digit growth, in the 70's and 80's, we were making investments and we were making choices within each of our own divisions. And then as the technology evolved, [divisional charters] began to get more redundant because the markets converged on each other and the technology evolved to a place where we started to run into each other more often than we used to...Also, the growth in the marketplace in general diminished- We were able to get away with [overlaps] in the early 80's because of the amount of government money that was being spent...I remember suggesting numerous times that we had redundant efforts going on and too many people working on certain pieces of the business."

Unlike other divisions, however, GOLIATH, who had already enjoyed some advantages in manufacturing, decided early to emphasize this historical path by focusing even greater attention on production systems and cost containment. This strategy, as it turned out, not only provided immediate returns to GOLIATH but placed the division in closer harmony with the extant marketplace. It also set them apart from other divisions and expanded their capacity for similarly oriented charters, a significant factor in the subsequent recombination, as several managers explain:

> "I'm not very egotistical but it seems to me to be fairly obvious that we had almost a step function higher performance..."
>
> "We recognized the problem several years earlier than some of the other product lines that we are now taking responsibility for..."

The "steals" by STEALTH and PLUNDER revealed a similar process, although STEALTH and PLUNDER's competencies were traditionally focused on cost containment.

In fact, their focus on costs and manufacturing, built-in to their original charters, became an important and defining part of their respective divisional cultures. One PLUNDER manager noted that "there was a strong culture of manufacturing" at PLUNDER: "while our American counterparts

were 'ready, fire, aim,' we were 'ready, aim, fire, and make sure!'" On the whole, therefore, gaining divisions were better equipped for the shifts in the marketplace.

All three divisions were also very successful in their pre-existing roles, perhaps emboldening divisional managers to pursue other charters. In the case of GOLIATH, their improved performance and redirection brought them favorable corporate attention, as one manager related, "Omni knows we deliver- and we've had a great reputation for that. I cannot remember not delivering." In the case of PLUNDER and STEALTH, both were not only better positioned for the new state of the marketplace, they were also very successful in fulfilling the performance requirements of their previous charters:

> "We were delivering profit to the corporation.. we were managing [our regional market] in such a way that even when we were adding all the costs, allocating all the worldwide costs, we were making profit here." (STEALTH manager)
>
> "We would have a very good reputation in controlling all expenses and all costs and the quality of the shipment." (PLUNDER manager)

The success of these divisions, therefore, may have both encouraged them to tackle other areas while also giving them status and favor with corporate levels.

Finally, in all three cases, the General Manager played a critical political role. General managers were described as "tenacious," "aggressive," and "passionate," characteristics which served them well in lobbying corporate levels for greater charter responsibility:

> "[Our GM] was a man for all crises and he fought for what he thought was correct...he fought a lot for giving..a clear charter for PLUNDER...I mean he had passion." (PLUNDER manager)
>
> "I think [our GM] was kind of viewing the [charter options] and saying 'Heh!, if this is the direction our group is headed in, which division would I rather be general manager of?' And he lobbied effectively there. (GOLIATH manager)

Arguably, these divisions could have sought completely new business opportunities. However, because the product-market areas in question were still perceived as viable businesses, but needing the capabilities these divisions developed, they were naturally directed to pursue these areas as charter targets.

Other Divisions: Emerging misfits and less qualified rivals. Other divisions in this pattern include the losing divisions along with other potential rival sites to the gaining divisions. First, for the losing divisions, a growing misfit emerged between the competencies needed to manage these businesses and the ones actually contained within these original host divisions. Whereas these businesses required greater attention to costs and manufacturing efficiency, these divisions

maintained competencies and cultures largely focused on technological development. Performance in turn suffered. For example, in the charter captured by GOLIATH, the host division had developed strong competencies in design and product development. This served them well when the market was young, growing, and customers would pay premiums to have cutting-edge technology. But as the market matured, this division found these competencies out-of-step with the changing nature of their business:

> We designed this stuff in the heydays of [our industry's] boom. Making all the money we can and spending everything we can. We did not design for manufacturability back then. We had no cost of sales pressure...we got into the classic trap [of our industry] which is we need one of everything- You need lots of managers and you need lots of functions. And every product had its own infrastructure. We had no leverage amongst products. We had the world's greatest idea every 3 years and we redesigned a major new platform and then the next idea came along and we designed the next major new platform. I think we were very 'R&D-creative' driven.

As market conditions changed and placed smaller premiums on innovation, these divisions suffered successive periods of negative margins. Not surprisingly, questions arose regarding their ability to manage these charters:

> One of the problems with our division was we always had a very high cost-to-sales percentage, and [our corporate executive] always felt it was because we really hadn't made the hard-nosed decisions to really trim the ship.

This had a powerful impact on divisional managers since these businesses had been with these divisions since their formation (between 1-2 decades), resulting in strong emotional attachments to these areas. Managers, therefore, were unsurprisingly anxious, and defensive, about threats to their charters. They regarded the gaining divisions as aggressive competitors, one group of managers at PLUNDER's rival labeling the charter gain a "hostile takeover." Yet, the misfit between their competencies and the new market conditions grew and became increasingly obvious, resulting in the loss of these charters.

"Other" divisions in this pattern also included rival sites to the gaining divisions. For example, both GOLIATH and PLUNDER rested in large corporate groupings where several other divisions might have taken on these charters. However, unlike the first pattern, there were no better divisions capable for the task, both from the point of view of fit and probable success and aggressiveness in competing for the charter. For example, in the case of PLUNDER (a foreign division) transportation cost advantages in serving their region of the world gave them the advantage over American rivals. Other divisions in their region who desired the charter were simply not as

aggressive about developing the manufacturing capabilities needed to run the transferred business, as one manager put it, "they didn't do their homework."

Corporate Executives: Judging internal competition. Unlike the first pattern of gains ("new charter opportunities"), where corporate executives initiated new charters, executive influence in "charter wars" (as one executive called them) mostly followed the internal, competitive dynamics between divisions. Their task, effectively, was to judge the unfolding contest for charter, allowing all sides to contend for the charters in question while charter change possibilities emerged and uncertainties were reduced. Decisions were made as circumstances and opportunities became clearer. Executive influence was most felt in the actual implementation of charter moves, when they were required to step in, pass judgment on "charter wars" and apply pressure to the losing divisions in order for them to give up these charters.

For example, in the case of STEALTH, lobbying efforts by the STEALTH general manager, along with a commensurate checking of divisional resources and capabilities by the corporate executive, confirmed STEALTH as the best site for the maturing business of the other division. STEALTH's rival, however, resisted the move. In this case, the executive had to apply corporate fiat: resistance to the change resulted in the replacement of some of the rival's divisional management team. Similarly PLUNDER's rival faced the replacement of top functional managers, as one manager noted "we basically changed two-thirds of the management team, so it was very very tough."

Executives, however, also spent considerable time helping divisional managers find new charters. While losing divisions may have misfit existing charters, their superior design and product development skills could be applied to other appropriate business settings. In fact, their poor performance was eventually spun as less to do with bad divisional management than a consequence of an emergent mismatch between divisional resources and charter needs. So, while GOLIATH, STEALTH, and PLUNDER gained the old charters, their rivals went on to pursue younger, emerging marketplaces and technologies that could make better use of their special skills and competencies (although, again, not without considerable conflict in the process).

To sum, "charter wars" emphasize the coevolutionary and competitive nature of the multi-business firm. The developmental paths, managerial objectives, and political maneuvering of one division play a key role in determining the fate of another. Although industry-level factors were behind the misfits between charter areas and divisional resources, the alternatives generated by the trajectories of gaining divisions were key in determining what should be done with misfitting charters. Arguably, faltering divisions could have been transformed to fit the new industry context, or else these charters could have been discarded, reactions which emphasize industry-level forces. However, the decisions taken rather highlight the importance of internal dynamics and environments, emphasizing endogenous factors in understanding change in large, complex organizations.

We add that gaining divisions were not necessarily less prone to inertia than losing divisions (except in the case of GOLIATH); they merely made better early bets and then capitalized on them. This suggests the advantages of diversity in divisional trajectories and resources within multiunit firms; as some resource clusters (i.e., divisions/business units) lose alignment, others may step in to fill their shoes. While inertia may still be undesirable, through diversity of opportunities its consequences may be overcome (Brown and Eisenhardt, 1997). Arguably, this diversity could be a source of adaptive advantage to the multiunit firm.

III. "Charter Foster Homes": Cooperation in Corporate Communities

A final pattern occurred as a result of structural problems within Omni, requiring a charter to be parked within a division for safe-keeping. These recombinations were largely the result of "orphaned" charters, that is charters which were given-up by divisions and desperately sought new homes. In essence, these charter changes sought quick organizational remedies to a disheveled business portfolio. Overall, "charter foster homes" was marked by: a) operational problems with existing charters or better opportunities for some divisions, stranding some business area b) the existence of stable homes (gaining divisions), and c) intense, match-making attempts by corporate executives. (See Table 5. Sample: FORTUNE, PROSPER, SPARK).

Insert Table 5 about here

Context: Charter debris. Unlike the previous two patterns of charter change, there was no single industry context within which charter parking occurred (such as new market opportunities or market shifts). These changes reflected an organizational predicament within Omni more than a pressing strategic opportunity or need. Generally, in a process where charters are continually realigned, sometimes the pieces don't always fit well together. Businesses can end-up in divisions that cannot properly run them, or divisions, already clogged with too many businesses to manage, find important new opportunities, or corporate executives find that they have too many divisions in their business groupings given the nature and variety of charters that they control. In any case, it becomes necessary to reorganize the architecture, in this case by shifting around charters between divisions.

For example, one of Omni's divisions failed to make adequate progress on a business area recently placed under its care. Net margins had dropped by nearly 30% in the year after the division took on the charter and divisional management were struggling with new directions for the business. Many considered the divisions attempts to manage this business, therefore, a failure and the charter moved to SPARK. Furthermore, since the corporate group to which this division belonged could not justify maintaining an entire division open without a substantial charter for this division in the near future, this division (i.e., a preexisting minor charter area, plus its infrastructure and human resources) were gained by PROSPER. In the gain experienced by FORTUNE, a fellow division had developed a brand new and highly promising product which required a complete dedication of its resources, leaving its existing charter potentially "orphaned." FORTUNE was asked to step in and adopt this business. The general lesson is that rapid operational and organizational problems often necessitate a rapid shifting of charter responsibilities and divisional resources. Of course, as before, other options could have been conceived of, such as spending time and resources altering the structures and internal processes of these divisions. To uncover why charter transfers were chosen we must once again examine the characteristics and developmental paths of the gaining divisions.

Interdivisional Dynamics.

Gaining Divisions: Safe havens. The orphaned charters were all transferred to divisions that had experience with the product-markets in question. More importantly, they could be generally described as "safe-havens" for these charters, that is well-run, stable (i.e., neither growing nor shrinking rapidly at the time with sound financials) divisions with closely related competencies and experiences. These were not necessarily the "optimal," long-term solutions for these businesses, but they brought important breathing space to the process of deciding the charters' future. Of course, the gaining divisions considered these interesting, if not important, charter opportunities and did not take them on lightly. However, these were not areas that they aggressively targeted, as we saw in the case of charter wars.

For example, PROSPER division had recently undergone internal restructuring and was showing healthy margins and a renewed market presence. There was a strong sense of accomplishment in the division, as several PROSPER managers reflected: "PROSPER had really done a pretty good job;" "Our new condition feels better to everybody." With this sense of accomplishment also came a renewed sense of confidence, both on the part of divisional managers and corporate executives searching for homes for orphaned charters. This was important to the process since the logic of the charter change was that a division that had its operations in order would be more likely to handle a fairly rapid, largely unforeseen, and perhaps disheveled charter change process. PROSPER also had experience with this product-market area in the past, which was of course a factor. However, managers stressed that the timing for such gains was key, that is not only divisional competencies but their current load and abilities to focus were also important to consider.

Other Divisions: Orphaned charters and local search. As noted, rapid decline or crises within losing divisions often precipitated these charter recombinations. From the point of view of other divisions as rivals for these charters, we found few others were considered outside of the gaining divisions in this pattern. This was different from "charter wars," where the problems, long-running and emergent, often introduced other viable homes to the gaining divisions. In this case, the speed with which action was required seemingly limited the search to the most obvious candidates.

Corporate Executives: Match-making. This pattern of changes was marked in particular by intense executive-level coordinating activity. This is largely because executives had to proactively conceive novel match-ups (as in pattern 1) *and* execute often complex charter transfers (as in pattern 2). Internal crises demanded both innovative executive thinking on corporate structure and corporate pressure/support to effect transfers.

The multifaceted nature of these charter moves made them particularly complex and challenging. For example, in the gains of SPARK and PROSPER, both based on the blow-up at one other division, various interests and concerns had to be addressed simultaneously, such as: 1) whether to break-apart the failing division's charter, 2) where to send the various pieces (i.e., the conditions, suitability and willingness of SPARK and PROSPER), 3) whether to keep the losing division as a separate entity (i.e., effects on group-level structure and costs), 4) timing, scheduling and implementing the transfers, etc. Such issues could not be tackled effectively at the divisional level but required extensive corporate-level coordination and involvement. Thus, this pattern emphasized the match-making abilities of corporate executives, who were required to respond quickly to organizational emergencies with innovative charter-division recombinations.

In general, this pattern of charter change is marked by organizational and tactical, rather than immediately strategic, concerns. Divisions sometimes fail to make a new charter work. Or else, clogged with multiple charter pieces, they are not able to pursue and focus on new opportunities. Sometimes emergency transplanting of charters becomes necessary. Smoothly operating divisions are consequently sought by corporate executives as sites for placing these "orphaned" charters.

Of the three patterns, Charter Wars and Charter Foster Homes particularly stress the communal and interdependent nature of divisional growth and development. Importantly, however, Charter Wars and Charter Parking do differ in a notable way. While Charter Wars underscored the competitive mechanisms that can pervade coevolving divisions, Charter Parking highlights collaboration. That is, sometimes a common problem, rather than competing interests, can inform a charter change. In this light, the firm is further seen as a community of divisions that can provide mutual relief and support to pressing business problems, such as when the resources of one division provide a home to the orphaned charter of another.

DISCUSSION

This paper explores a novel perspective on the organization of large, diversified firms. In particular, we examine how corporate resources (division-specific competencies and their positional charters) can be reconfigured to create novel productive resources for the firm. Given that "the essence of an architectural innovation is the reconfiguration of an established system to link together existing components in a new way" (Henderson and Clark, 1990:12), Omni's charter movements could therefore be thought of as a form of architectural innovation or reconfiguration at the corporate level of analysis. What we found were three patterns by which corporate divisions adopted new charters. Each pattern had common actors (i.e., industry context, interdivisional dynamics, corporate influence), but their interplay and importance varied. Pattern 1 (*New Charter Opportunities*) emphasized the industry driver and the use of relatively new product-market areas to bolster sagging divisions. Pattern 2 (*Charter Wars*) emphasized interdivisional rivalry and the use of alternative corporate sites to regenerate troubled product-market areas. Pattern 3 (*Charter Foster Homes*) emphasized the role of corporate executives and the use of charter moves to safely store orphaned business areas while dealing with structural crises. All three patterns, however, underscore a more fluid, recombinant view of large, multiunit organizations vis-à-vis a loosening of the connection between product-market charters and divisional resources. As noted from the outset, despite the large volume of research on the multiunit firm, most perspectives have taken a relatively static view

of existing divisional domains and the interaction of corporate components in general (see Galunic and Eisenhardt, 1994; Ciborra, 1996).

Dynamics Capabilities from "Dynamic Communities"

Our work relates to several key literatures. One is the work on the resource-based view and more particularly on dynamic capabilities. First, our findings offer a novel empirical demonstration of dynamic capabilities, focusing at a higher level of analysis than normally used in considering such capabilities. As noted, a dynamic capability is the subset of a firm's capabilities that are specifically concerned with the continuous creation of new productive assets (Teece and Pisano, 1994:541). There are, of course, many ways to conceive of "productive assets." One useful operationalization has been to focus on the creation of lower-level capabilities, such as new product design skills, procurement capabilities, and so on (e.g., Iansiti and Clark, 1994). Our study has drawn attention instead to higher levels of analysis when interpreting these productive assets—that is on the process of reconstructing larger resource clusters, as they may be represented by corporate divisions (see Grant, 1996). Our study also suggests that dynamic capabilities can be as much about refreshing existing resources as creating them *de novo*. Dynamic capabilities in our conceptualization are concerned with the firm processes which explore and implement alternative uses for underlying firm resources (i.e., as lodged within corporate divisions) through altering the context within which they are used and thereby creating novel services from existing resources (Penrose, 1959). New "contexts" are created, for example, by unsaddling an innovation-intensive division from product-market areas that increasingly require manufacturing-intensive capabilities and allowing these divisions to pursue fresh business areas. An architectural perspective at the corporate level, through a recombinant process, is thus central to our operationalization of dynamic capabilities.

Our findings suggest that dynamic capabilities so conceived may have their source in "dynamic communities." We can define such communities by at least four features: 1) corporate divisions that display diversity but also relatedness; 2) divisional developmental paths that create novel resources and opportunities for recombinations; 3) corporate culture and institutions that tolerate competitive internal markets for charter and buffer against some of their harsher consequences; and 4) corporate leaders as architects.

Composition: Diversity and Relatedness. Diversity in natural and human systems is usually a very good thing (Buckley, 1968). Corporate-level dynamic capabilities based on architectural innovation require diversity. Divisions with different and distinct resource sets must exist in order to make charter changes possible—so that different skills, routines, and expertise may be brought to bear on changing market and internal contexts. Yet, as noted, relatedness is also important. Divisions may not be so distinct as to make their underlying resources completely unadaptable to different contexts—they must be of the same "species" for charters to be tradable and novel marriages between divisions and charters to be conceived. Seemingly, they must share a common language and understanding of their broader industry to make such recombinations possible. Dynamic communities therefore mean a balance between distinctness and relatedness (Tushman and O'Reilly, 1997:155).

Dynamics: Developmental Trajectories and Modularity. The composition of such communities, however, is bound to change—and should probably do so from the point of view of recombinations. Divisions are dynamic entities, pursuing developmental trajectories in both their business niches and underlying capabilities that may find them in new places in the their marketplace, and with different skill sets in relation to other divisions in the corporate community. This seemed consequential to the recombinations we have observed—change, whether in market conditions or relative divisional capabilities, often triggered or allowed recombinations to happen. Such dynamism seemingly replenishes the aforementioned corporate stock of diversity and recombinant opportunity—it reshuffles the deck of broader corporate resources available for such structural innovation. In essence, these divisional paths create "shifting relatedness" between divisions. Although divisions at any one point in time may be only marginally related or, on the other hand, display too little diversity, divisional trajectories will generate convergence towards or divergence from other divisions that create new opportunities for structural innovation. Similarly, divisional "charter capacities" will change with time and divisional action—sometimes divisions will be too full to be able to adopt new charters, even though they may fit these charters. Overall, this dynamism alters and regenerates relatedness and opportunities in the corporate community, operating through a history of divisional choices in developing their charters and resources.

Important to such dynamism is some degree of modularity in organizational designs (e.g., Sanchez, 1995; Baldwin and Clark, 1997; Brown and Eisenhardt, 1997; Brown and Eisenhardt, Forthcoming). Modularity in organizational design means "subsystems that can be designed independently" (Baldwin and Clark, 1997:84), which in turn boosts the rate of innovation in the subsystem. On the whole, Omni is noted for having autonomous business divisions (supported by their strong individualistic culture—see below). Having divisions that can take different developmental trajectories—not having to move in concert with the whole corporate community—was important to Omni in replenishing the corporate stock of diversity. Such modularity in corporate design is arguably an important part of generating recombinant opportunity.

Corporate Culture: Encouraging competition. Capitalizing on this dynamism and diversity, however, requires institutional mechanisms which allow for such free-wheeling exchange to occur within the corporation. Cultures that do not tolerate competitive, market-like mechanisms of exchange operating *within* the firm may not tolerate such recombinations. Within Omni, competition for charters was supported by the corporate culture. Foremost, Omni prides itself on respect for the individual and a fundamental belief in the capabilities and "good-intentions" of individuals. Moreover, the firm also emphasizes self-responsibility and personal initiative. Collectively, these values support internal competition and confrontation. For example, divisional managers were not discouraged from aggressively setting their sites on other charters and positioning their divisions as alternative hosts to promising product-market opportunities; rather such behavior was, to a large extent, accepted and institutionalized within Omni.[5] Arguably, allowing such institutions to develop and thrive is vital for such recombinations.

However, we also found mechanisms that prevented such processes from rapidly deteriorating into chaos and a lack of trust in the process. For example, corporate executives would be careful to appeal to firm-level advantages of charter changes when justifying the moves, blunting some of the parochial spins to the changes (especially in Charter Wars). Also, corporate assistance for losing divisions (i.e., finding new, more suited charter areas, thereby reducing the downside of a loss and helping divisions still feel a part of the Omni community) was provided. Finally, divisions were not only competing for charters but were often willing to accept and foster orphaned charters,

as we saw in the last pattern of change. Thus, competitive institutions were also being tempered by acts which reinforced ideals of fairness and collective purpose in the corporate community.

Leaders as Architects. Finally, how the corporate architecture evolves will be strongly influenced by corporate leaders. Corporate leadership plays an important role in two respects: instigating novel divisional trajectories and appropriating the value from the diversity generated through charter changes. First, through normal executive duties, corporate leaders at Omni influenced how divisions developed their resources and market positioning. This occurred through periodic strategic reviews (both "one-on-one" meetings with divisional general managers but also with a cohort of general managers, where the future directions of a group of divisions were plotted), headcount controls, redistribution of group profits, etc. All these executive actions could influence the ways in which divisions develop their internal resources and charter areas, and therefore impact the diversity of future recombination opportunities in the firm. Second, corporate executives also played an important role in seizing these opportunities through their various interventions in the charter change process. Executive influence here included both the detection of opportunity for recombinations (best exemplified in "New Charter Opportunities" and "Charter Parking") as well as the implementation of already developing ideas for recombination (see "Charter Wars"). In this way executives were key in recrafting the corporate architecture, taking advantage of the diverse resource stocks present in Omni to address business needs. As Henderson and Clark point out (1990:17), the onus on moving through and organizing architectural innovation must fall on senior management. Moreover, because executives are more likely than other people in the corporation to build and retain broad architectural knowledge of the firm, and are arguably the only ones with the formal power and clout to effect such changes, their involvement is key. Finally, as noted earlier, executives were also important in encouraging and conditioning the institution of charter change within Omni. That is, executives played a role in making charter movements an accepted practice in the Omni culture and preventing it from becoming an overly combative vehicle for structural change.

Finally, our paper also relates to theories of organizational change. First, theories of organizational change have long struggled with understanding the causal factors of change (see Van

de Ven and Poole, 1995). One distinction often made is between exogenous and endogenous forces for change—is change (and particularly at the firm level) largely driven by external, "invisible hand" forces or internal processes that emphasize strategic managerial choice? Van de Ven and Poole (1995) point out that the last two decades have witnessed an emphasis on exogenous forces. Our study suggests instead a "nested" model of influence is more appropriate, where exogenous and endogenous forces are seen to co-determine change. Sometimes exogenous (industry-level) forces may create strong and clear signals in triggering change, such as in pattern 1 (New Charter Opportunities), where threats and new possibilities in the marketplace spoke loudly to managers and gave definite directions to change. However, even here managerial choice, interdivisional comparison and negotiation played some role in directing change. In patterns 2 & 3 (Charter Wars and Charter Parking), on the other hand, exogenous forces spoke more softly, this pattern accentuating instead the dynamic interactions between divisions (the intentions, strategies and developmental paths of divisions) and/or executive fiat as key triggers to change.

Second, we note that change can take on a punctuated quality at one level while appearing continuous at another (Tushman and Anderson, 1986; Anderson and Tushman, 1990). That is, while divisions experienced punctuated change processes (i.e., through adopting radically different business environments), the corporation as a whole experienced a more continuous process (i.e., fine-tuning the approach with which an existing product-market area was managed).

Finally, we see that complex corporate changes can consist of some arguably simple rules. Regarding charter gains, such rules included giving new business opportunities to struggling divisions, refreshing sluggish businesses by refitting them into healthy (and suitable) divisions, and fostering orphaned charters within stable homes. While the operationalization and enactment of these patterns of change often appear complex and seemingly involve a tangled web of relationships, tacit understandings, and "infinite" actions, their underlying logics and driving motors may be more finite and definable. In other words, complex adaptive systems may be seen to operate through relatively simple and routine dynamic capabilities, such as the routines and institutions behind "charter changes" in Omni. This also points out that visions of corporations as "dynamic

communities," while more fluid and blustery than past perspectives (Ciborra, 1996), need not be seen as more complicated and obscure.

CONCLUSION

This paper has implied strategic value for firms that practice some form of charter recombinations, noting the rationale for why such dynamics may be beneficial in turbulent business settings. While further research, both conceptual and on large-samples, is required to confirm the performance implications, what can we say about Omni's performance in light of this widespread practice? It is, of course, difficult to connect performance cleanly to one element of a corporation's strategy. Nevertheless, it is worthwhile to note that Omni has achieved marked success during the time period relevant to this study. It has achieved over 50% growth in revenue and healthy earnings per share during the 1988-1993 period, remarkable given the stagnant nature of most economies where Omni participated during this period.[6] Omni is also considered by many to be a superbly managed firm and a leader in a number of highly competitive markets, often reported and acclaimed in the business press. However, given the limitations of an inductive study, more research is needed in connecting the performance of large corporations and their organizational logics (and particularly recombinant logics). The evidence developed here nonetheless reemphasizes the value of thinking in architectural terms and presents a process model of how this may occur within a large corporation. Our hope is that this study will offer ideas and lessons towards future research on the multiunit form of organization and recombinant logics for managing them.

ENDNOTES

[1] The notion of a divisional *charter* has similarity to the concept of organizational domains in the organizations literature (Levine and White, 1961; Thompson, 1967). An organizational domain consists of the goods or services an organization provides and the markets or populations it serves, similar to the notion of a divisional charter we found in Omni. We retain the word "charter" since it was used by the firm.

[2] The name of the firm has been disguised to protect the confidentiality of the firm.

[3] There were no smaller operational units than divisions in this corporation, the lowest categorical level at which a broad compliment of functional areas were found. These could be called "strategic business units" but we retained divisions because it was a company-used term.

[4] Charter changes were found to be of two basic types: gains and losses. (A charter loss occurred when a product or market area of responsibility was removed from a division.) The distinction between gains and losses was convenient for data analysis purposes, reflecting partly a natural distinction in the phenomenon. That is, sometimes gains could occur without having suffered loss from a another division, and sometimes losses could occur without ending-up as another division's gain. Of course, gains and losses would often occur together (one divisions loss was another's gain). However, as we analyzed cases of gains for common patterns we found the cases representative of a gain pattern often told us more than what was available from simply the mirror-image of loss patterns. To keep the theoretical development parsimonious within the confines of one paper and develop the rich detail within each aspect of charter change (losses and gains) we have therefore written up gains and losses separately.

[5] This was particularly salient during one dinner meeting the first author attended with two general managers from divisions who had recently gone through a charter war. Although the battle for charter was fiercely contested between them, they both acknowledged that this was 'the way things worked around here.' Moreover, their mutual respect and their confidence in institution of charter change was not compromised. Indeed, the loser in this battle was already contemplating how to best position for upcoming market opportunities.

[6] In one charter area, following a charter change, Omni has moved from relative obscurity to one of the top 4 global players, an achievement widely praised in the press. However, we are cautious about basing the strategic value of charter changes on individual charter changes per se—some are experiments and may not work out while others do (and may be big winners). How the company fares as a whole and over time seems more relevant.

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TABLE 1
Description of Case Data

Division	Strategic Profile	Total Interviews	Pattern of Charter Gain Experienced
1. **Quest**	Computer Peripherals & Office Products (Tech. Area A)	**13 total** 12- division level 1- corporate level	New Charter Opportunities
2. **Voyageur**	Computer Peripherals & Office Products (Tech. Area A)	**9 total** 6- division level 1- corporate level 2- group sessions	New Charter Opportunities
3. **Saturn**	Computer Peripherals & Office Products (Tech. Area A)	**11 total** 8- division level 1- corporate level 2- group sessions	N/A
4. **Spark***	Computing & Information Technology	**6 total** 5- division level 1- corporate level	New Charter Opportunities/ Charter Foster Homes
5. **Stealth**	Computing & Information Technology	**5 total** 4- division level 1- corporate level	Charter Wars
6. **Fortune/ Prosper****	Information Management	**9 total** 7- division level 2- corporate level	Charter Foster Homes (both experienced one case)
7. **Mission**	Office Products (Tech. Area B)	**5 total** 4- division level 1- corporate level	New Charter Opportunities
8. **Plunder**	Office Products (Tech. Area B)	**5 total** 4- division level 1- corporate level	Charter Wars
9. **Goliath**	Instrumentation	**11 total** 9- division level 2- corporate level	Charter Wars
10. **Triton**	Instrumentation	**12 total** 10- division level 2- corporate level	N/A

All divisions experienced at least one charter gain except for Saturn and Triton, who only experienced losses.
*In the case of Spark, two gains occurred at different points in time involving different product-market areas and were separately documented.
**While interviews were carried out at one corporate cite, this division (now merged) was formerly two divisions, each with charter change experiences that we documented. We therefore distinguish between them with two names.

TABLE 2
Summary of Recombination Patterns

	1. NEW CHARTER OPPORTUNITIES	2. CHARTER WARS	3. CHARTER FOSTER HOMES
KEY FORCES			
Industry-level Forces	• Brand new markets emerge that demand attention.	• Existing markets shift causing performance problems.	• N/A
Interdivisional Dynamics	• *Gaining Divisions*: Weak-to-modest performers with underutilized resources and constrained charter positions get a boost. • *Other Divisions*: Some potential rivals for charter exist, often with superior resources, but also overloaded and distracted.	• *Gaining Divisions*: Up-and-coming divisions with strong desire for growth and well fitting capabilities (typically manufacturing oriented). • *Other Divisions*: Sluggish performers in new marketplace with robust R&D skills, badly misfitting the new marketplace.	• *Gaining Divisions*: Successful and stable divisions willing to accept new charter areas. • *Other Divisions*: Failed charters or divisions wishing to shed a charter in order pursue a new charter.
Corporate Executives	• Mostly involved early, helping to find and initiate new domains.	• Mostly involved late, helping to implement and push along charter exchanges.	• Involved both early and late.

(**Note**: Boxed category indicates an accentuated explanatory force)

TABLE 3
Summary and Illustrations of "New Charter Opportunity" Recombinations

	Industry-Level Influence	Interdivisional Dynamics		Corporate-Level Influence
Summary	**High**	**Low**		**Moderate-to-High**
	• Emergent Market Opportunities	**Gaining Divisions** • Related competencies • Weak to Modest performers. • Constrained growth prospects. • Growth-driven culture. Sample: ***QUEST*** ***VOYAGEUR*** ***SPARK*** ***MISSION***	**Other Divisions** • Related competencies, often a better match for new opportunities. • Full-capacity and distracted; could not focus on new area.	• Top-down orchestration and support of decision, with significant role in initiating change.
Sample Illustrations from Cases	*Voyageur* "The strategy was to pursue the neat opportunities available with our [newer technologies]." *Spark* "..my division would focus on taking a lot of the market research that had been started prior to my coming here and looking at a really different business, really trying to go off and establish a new area." *Mission* "The market is, of course, the major driver in this. The market needs are changing and divisions are trying to match them..."	*Quest (related competencies)* "[Our executive] felt like, 'you guys are small, and lean and mean, and you've done a lot of things in a short amount of time before, it's perfect for you...'" *Spark (weak performers)* "Nothing to be proud of being in this division." *Voyageur (constrained past)* "...it was a real start-up operation that tried to make something different happen....it was a lot of people's shot at making something big happen." *Quest (growth-driven culture)* "We did it because we felt we had to have a home run."	*Saturn (full capacity)* "It was an interesting idea for [Saturn], but they have lots of opportunities that just fall off the plate--they can't do them all." (Rival to Quest and Voyageur) *Prosper (full capacity)* "[A corporate vice president] wanted complete focus on their business and this other stuff was distracting." (Rival to Mission)	*Quest* "[Our corporate executive] was deeply involved all the way through the project...because it was his baby. It was his idea originally. He drove the dates, he drove just getting the thing out and testing it." *Spark* "Our corporate executive had decided to make this change and had discussed that with me because he is the one that talked to me about taking this job." {GM}

TABLE 4
Summary and Illustrations of "Charter Wars" Recombinations

	Industry-Level Influence	Interdivisional Dynamics		Corporate-Level Influence
Summary	**Moderate**	**High**		**Moderate**
	• Gradual market shift towards price competition and sensitivity to cost.	**Gaining Divisions** • Strong fit with emergent market trend. • Strong recent history of performance. • Politically active General Manager. Sample: ***GOLIATH*** ***STEALTH*** ***PLUNDER***	**Other Divisions** • *Losers*: Weak recent performer, out of line with the new market conditions, typically more R&D driven. Lose charters to gaining divisions. • *Other Rivals for Charter*: Not as well positioned or not as aggressive as gaining divisions.	• Only monitored development of the competing divisions at first • Stepped in eventually to "pass judgment" and reconfigure charters.
Sample Illustrations From Cases	*Goliath* "Our [business group's] core products have been experiencing relatively constant decline in revenue for probably six years. That's been not so much due to the products but more the fact that the markets are declining..." (Goliath rival) *Stealth* "...the technology costs in this industry come down very very rapidly..." *Plunder* "At first [our products] were very competitive, but very high priced, high margins... That was okay until there were many [competitors] in the world... Then there's plenty of people in the world looking for business opportunities and they say "he's going to sell that for $1,000, I know how to do that for less!" (Plunder's rival)	*Plunder (strong fit)* "We would have a very good reputation in controlling all expenses and all costs and the quality of the shipment." *Stealth (strong performer)* "STEALTH started with a very weak product line, and we are chartered for worldwide design now... fortunately enough, we had been thinking that there would be some kind of [market shift].. I was pushing for many years for very low end products. So, we were starting to work in that respect." (GM) *Goliath (strong GM)* "[Our GM] is seen as the highest performing and therefore most influential manager...[he] is an aggressive manager who surrounds himself with aggressive team..."	*Goliath's counterpart (losing division)* "We designed this stuff in the heydays of [our industry's] boom. Making all the money we can and spending everything we can. We did not design for manufacturability back then. We had no cost of sales pressure...we got into the classic trap which is we need one of everything- You need lots of managers and you need lots of functions...We had the world's greatest idea every 3 years...I think we were very 'R&D-creative' driven." *Goliath compared to other rivals* "We took more out of manufacturing costs and improved speed in manufacturing, more than some of [our rivals]." *Stealth's counterpart (losing division)* "..we would be the first division to incorporate new technologies, which takes a little bit more of an understanding of the technology and a closer working relationship to the technology users..." *Plunder's counterpart (losing division)* "...financial performance was poor, the market share had been declining..." *Plunder compared to other rivals* "[rivals] were convinced they were at the top of the list...[but] they didn't do their homework ..."	*Goliath* "I think the actual initiation of change probably occurred when [the VP] decided that it was time to make a structural change. But I don't think he was one of the first ones to recognize that we needed to make a structural change. I think it happened amongst my peers and I..." (Senior Goliath Manager) *Stealth* "All of them drooled over all of the charters... nobody wanted to give up what they perceived they owned." (Corp Exec) *Plunder* "[Our VP] was listening and I think seeing that things were not moving forward [in the rival division]" "The bottom line of that is that finally there was a crisis [in the rival division]..."

TABLE 5
Summary and Illustrations of "Charter Foster Homes" Recombinations

	Industry-Level Influence	Interdivisional Dynamics		Corporate-Level Influence
Summary	**Low**	**Moderate**		**High**
	• Industry turbulence, but also structural crises inside Omni.	**Gaining Divisions** • Relevant experience and capabilities. • "Safe Havens" for the gained charter. Sample: ***FORTUNE*** ***PROSPER*** ***SPARK***	**Other Divisions** • *Losers*: Crisis conditions. Rapid charter failure (PROSPER and SPARK gains) or new direction sought by a division, thus orphaned charter (FORTUNE). • *Other Rivals for Charter*: No expansive search was conducted.	• Crisis Management through Match-making, often temporary reconfigurations that were strongly top-driven.
Illustration from Cases	*Spark/Prosper* "It was [the business group] in total that had an issue. Some division needed to get shot." *Fortune(gain)* "The other business group's corporate executive needed somebody to deal with this charter, and FORTUNE had been involved in [a part of this industry]."	*Fortune* "There's a real strong tie between the kind of business we're in ..and the kind of business the other division [was giving up]." "FORTUNE was, and for all intents and purposes still is, a very profitable product line. We were basking in 20-25% net profit consistently." *Prosper* "..PROSPER has really done a pretty good job [in recent times].." *Spark* "we have all this [relevant expertise] here, we've been in the business for a long time [to take this charter]"	*Fortune (losing division)* "We started some business investigations to decide which direction do we want to go in, do we want to completely change our structure and drive the cost down and things like that or do we want to change our strategy and move ourselves out of the traditional market into something a little more different" [they decided for the latter, leaving their older charter "stranded"] *Prosper/Spark (losing division)* "[The other division] didn't unwind, it blew up."	*Fortune* "It was really driven top down." *Prosper/Spark* "we said instead of just maintaining a separate division we should better understand the business environment...maintaining a separate division may just not be the best way to organize...Friday this week we'll have a meeting on that very subject and we'll see where we are." (VP of Group)