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# LEADING CHANGE IN A COMPLEX WORLD

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Transdisciplinary  
Perspectives

EDITED BY

ANNI KANGAS, JOHANNA KUJALA, ANNA HEIKKINEN,  
ANTTI LÖNNQVIST, HARRI LAIHONEN & JULIA BETHWAITE



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## CHAPTER 1

# Introduction: Leadership for Dealing with Complex Changes

ANNI KANGAS, JOHANNA KUJALA, ANTTI LÖNNQVIST,  
ANNA HEIKKINEN & HARRI LAIHONEN

The world is changing rapidly. Many contemporary change processes are increasingly complex. The effects of climate change, urbanisation, ageing societies, the dynamics of global security, or creation of sustainable conditions for business development are all phenomena that cannot be made to fit any simple model. They have a number of boundary-spanning components and are dynamic and open to their environments. This means that leaders must possess new kinds of knowledge and skills to understand and deal with such complex phenomena.

To respond to the needs of various kinds of leaders operating in these complex environments, this book develops a framework for leading change. This approach is here called the Leadership for Change (LFC) framework and it builds on the following three ideas:

1. Many contemporary change processes are complex and systemic.  
→ This highlights the capacity to think across traditional institutional boundaries and the ability to see patterns and structures beyond specific elements and events.
2. Issues and problems crossing traditional institutional boundaries cannot be resolved by a single actor or sector. Governments, businesses, civil society actors, citizens and consumers must work together, negotiate, and agree on novel ways of doing things.  
→ This stresses the need to understand how different societal sectors and actors function and make sense of the world, and how they can work together.
3. Complex environments are marked by ambiguity and uncertainty.  
→ This emphasises the capacity to embrace uncertainty and use various sources of information and knowledge to create a shared understanding of the situation at hand.

With the growing complexity and ambiguity of leadership contexts, leadership functions have become dispersed. Leading change in a complex world is often a collective effort taking place both with and without formal leaders. This book is aimed at leaders as well as analysts of leadership examining contemporary change processes from various positions. The book is not confined to what is known as leadership studies. It instead examines leadership from a transdisciplinary perspective. Transdisciplinarity means taking a holistic approach to leadership; it not only uses knowledge from different disciplines but displaces disciplinary thinking in its examination of leadership and change (e.g., Aalto, 2012, 16–19). The transdisciplinary approach is developed here by examining and analysing various phenomena crossing the traditional fields of business and management, public administration, and politics. Instead of taking disciplinary discussions as the point of departure, the chapters presented in this book are united by a set of concepts which provide a framework for enacting and analysing leadership: complex world, relational leadership, and dynamic change (see Figure 1).

Complex world refers to the idea that the issues and systems comprising society can be placed along a continuum from simple to complex. Relational leadership points to the idea that leadership cannot be confined to simple leader-follower relationships. It is not restricted to a single formal leader or small group of leaders. Relationality also appreciates the wider social and environmental context in which leadership is enacted. In contrast to planned change, which is linear, organised, and efficient, dynamic change appreciates the non-linear, trans-scalar, and less predictable features of change.

The LFC framework is first and foremost an analytical prism. As illustrated by Figure 1, topics and issues can be placed differently along the continuum ranging from simple to complicated and further to complex societal problems. Although the world appears increasingly complex, some organisational and leadership issues remain relatively straight-forward and routine. The same applies to leadership and its relationalities. Despite the obvious tendency toward plural, flexible and even leaderless organising, many leadership settings are hierarchical and leader-centric. As Arja Ropo reminds in the afterword chapter of this book (Ropo, Chapter 18), in times of chaotic change, heroic and charismatic leadership is often sought for. The chapters of

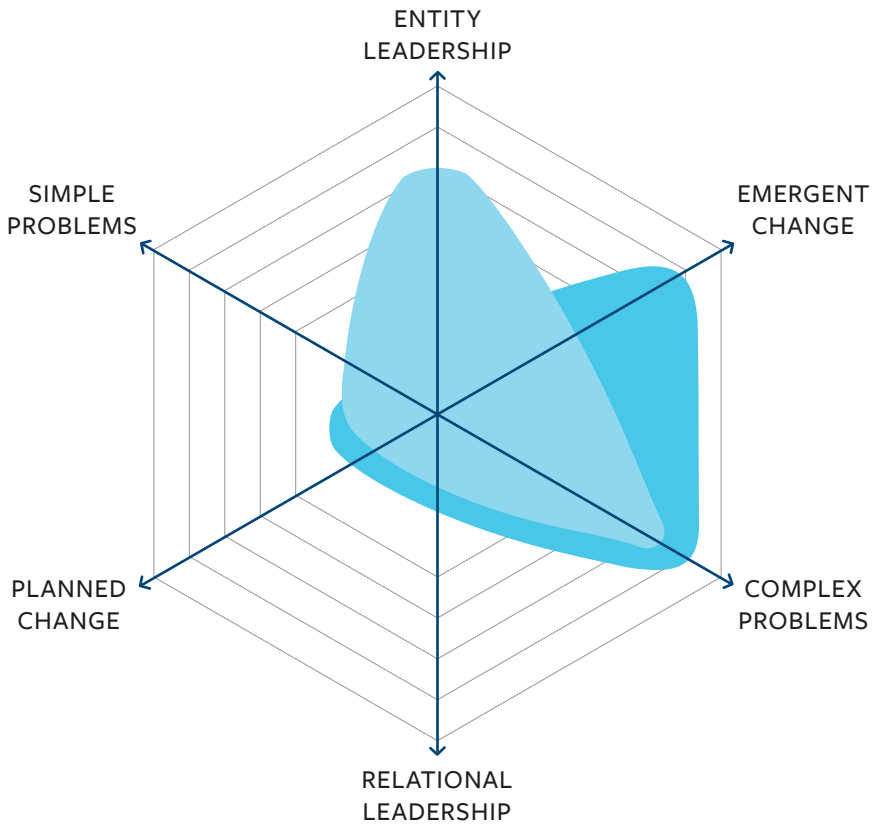


FIGURE 1. The Leadership for Change framework for analysing leadership in a complex world

the book examine not only relational, but also more leader-centric or entity-based, leadership settings. For example, leadership exercised by the heads of states or companies' boards of directors is closer to the leader-centric end of the spectrum while stakeholder cooperation or customer value creation display relational features of leadership. The contributions to the book also differ in their understanding of change. The practices of consumer citizens in reducing food waste, societal transitions towards the circular economy, and the emergence of new power blocs in the international system are all change processes. However, they are underpinned by a different conceptualisation of change. Some change processes can be planned, at least to an extent. In

other cases, change is more emergent. Read together, book concretises the LFC framework for understanding the leading of change in a complex world. It thus invites leaders and analysts of change and leadership to consider how the specific process of change they are dealing with situates along the three dimensions of simple vs complex problems, entity-based vs relational leadership, and planned vs emergent change. The following sections explicate what these dimensions entail.

## Complex World

Complexity refers to systemic, interconnected, and unpredictable tasks and operating environments (Nason, 2017). “Complex” is different from “complicated”, as the latter involves many tricky, technical challenges. For example, building a computer or an aeroplane is a highly complicated task requiring much technical skill, the right components, machinery, instructions, etc. However, despite these difficulties, it is possible to repeat the process exactly the same way thousands of times in various locations. As Herbert Simon notes, even going to the moon was complex only in the sense that it challenged our technical capabilities: “It was achieved in an exceedingly cooperative environment, employing a single new organization, NASA, that was charged with a single, highly operational goal. With enormous resources” (Simon, 1996, p. 139).

In contrast to “complicated”, “complex” refers to the interconnectedness and interdependence of various factors. When a factory producing clothes for global markets collapses in Bangladesh killing hundreds of workers, this may seem like an accident. However, if we make sense of the event through the idea of complexity, we are prompted to see it in a more multidimensional way: we can see that people work in these conditions because of a shortage of other jobs. This links the disaster to local employment dynamics and the regulatory framework that enabled a factory to operate in an unsafe building. We can further connect the disaster to the dynamics of global trade in which the Bangladeshi garment industry can only survive by offering the lowest overheads. We can also see the link to consumption practices and habits of consumers in Western markets. Nevertheless, it is not possible to

identify a linear path of cause and effect from one event to another. Instead, the relationships are complex, multidimensional, and interrelated.

There are various ways to refer to complex and interacting societal challenges. They may be called “messes” (Ackoff, 1999), “grand challenges” (Ferraro, Etzion & Gehman, 2017), or “commons problems” (Ostrom, 1990). A well-known concept used to describe particularly complex and tricky leadership and management contexts is the concept of the “wicked problem” (Rittel & Webber, 1973; Weber & Khademian, 2008). Wicked problems are simultaneously unstructured, cross-cutting, and relentless. For example, the ageing workforce, which Hanna Salminen analyses in her chapter in this book can be considered a wicked problem (Salminen, Chapter 5). It is relentless because it is unlikely to ever be solved permanently. The problem is unstructured in the sense that the ageing workforce is connected to many other factors, such as the business environment, regulation, the skill level of the workforce, global economic cycles, etc. These all have an impact on employment policies and human resource management practices. The ageing of workforce is also cross-cutting, as it relates to many stakeholders with differing perspectives and potentially conflicting views.

Another good example of ambiguous and unpredictable social developments are changes caused by digitalisation, which several chapters in this book discuss. Digitalisation is a “megatrend” which currently affects – and will continue to affect – many sectors of society. No part of society is left unaffected by digitalisation, as Martti Nieminen argues in this book. Nieminen analyses the ways in which digitalisation and the associated transformations of the global economy have rendered the existing principles of international tax system outdated (Nieminen, Chapter 6). This volume also shows that some business sectors and industries, such as banking and insurance scrutinised by Raimo Voutilainen and Lasse Koskinen (Chapter 17), are facing major changes due to digitalisation. The interface between company and customer is moving to the Internet, and the development of digital technologies enables many key tasks to be carried out automatically. This

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There are various ways  
to refer to complex  
and interacting  
societal challenges.

is likely to make many current employees redundant – while new jobs also emerge. Voutilainen and Koskinen suggest that one of the concrete implications of this for leadership and management is that businesses should invest in developing their employers' abilities to deal with change.

In complex environments, each factor is linked to many other factors, which creates surprising outcomes. Many contextual and extra-contextual factors play a role in change processes, and unpredictable events may occur. Ambiguity and uncertainty are thus an inherent part of the leadership dynamics in complex settings. Moreover, even though we can imagine the directions in which societies, technologies and related opportunities are evolving, the future is uncertain and full of surprises: it is not clear what will happen and when. Therefore, it is not easy for a given actor to foresee the optimal course of action. Changes need to be made, but there is uncertainty regarding the type, direction, and timing of the actions to be undertaken. Tapio Juntunen and Sirpa Virta (Chapter 4) discuss this uncertainty in the context of security governance. They show that resilience politics has emerged as a response to the perceived inability of societies and governments to guarantee security through traditional preventive and proactive security policies in conditions of complexity. Moreover, Juntunen and Virta argue the rise of resilience thinking indicates a crisis or transformation of leadership.

One way to manage uncertainty is to build visions and strategies on the best available information, whether that comes from internal or external sources. Leaders also need to provide assurances that the required knowledge, assets, and capabilities are available to enact the change. The chapter by Pasi-Heikki Rannisto and Anna Saloranta expands on this point. Rannisto and Saloranta argue that while leading change effectively requires evaluation, few organisations actually evaluate their change projects. The authors also point out some ways in which evaluation can be embedded in organisational change processes (Rannisto & Saloranta, Chapter 10).

This book also draws inspiration from the work of scholars who have introduced frameworks that enable us to make sense of events and changes taking place in complex environments. One such example is the VUCA framework, which is used to describe complex and challenging leadership contexts (Bennett & Lemoine, 2014; Elkington, van der Steege,

Glick-Smith & Moss Breen, 2017; Mack, Khare, Krämer & Burgartz, 2016).  
VUCA stands for volatility, uncertainty, complexity and ambiguity:

Volatility – There is a likelihood of sudden and unexpected changes. For example, there may be rapid changes in the cost of resources due to unpredictable events.

Uncertainty – Something important may (or may not) happen – for example, due to some key stakeholders' decisions – but these events are hard to predict.

Complexity – The process includes many interconnected actors and variables, so it is difficult to foresee the outcome of events.

Ambiguity – When dealing with new situations – for example, when entering an entirely new market – it may be difficult to understand the logic of how things work.

The four VUCA characteristics are nowadays quite commonly utilised in the work of leaders and managers, as there are many uncertainties and the world seems to change quickly. A VUCA type of environment can be considered an extreme context for leadership and management. It is complex, fast changing, and unpredictable. In such an environment, it is very difficult to know what is likely to happen and what would be the right step to take. The chapter by Mika Yrjölä, Hannu Kuusela, Elina Närvänen, Timo Rintamäki and Hannu Saarijärvi (Chapter 8) expounds on this point. The authors suggest that in the VUCA environment, leaders and managers need simplifying heuristics to refer to in complex decision-making situations. This argument is concretised with the help of the customer value framework. This can be used to ensure that in the midst of changes, the organisation remains relevant to customers – one of its main stakeholders.

## Relational Leadership

One of the key arguments of this book is that in a complex world, reductionist approaches to leadership are not sufficient. In contexts where multiple actors are involved, no single actor holds all the power, capability,

or competence to make decisions on behalf of others. Instead of top-down, hierarchical management processes, the LFC framework highlights the leadership roles of a variety of actors. Many chapters in this book examine how actors such as frontline employees, customers, or other stakeholders enact leadership. It further examines how cross-sector collaboration can create a greater collective capacity to address wicked problems and complex issues such as global sustainability challenges. In their chapter, Anna Heikkinen, Jere Nieminen, Johanna Kujala, Hannele Mäkelä, Ari Jokinen and Outi Lehtonen (Chapter 2) develop this point in the context of stakeholder engagement. Examining urban ecosystem services – parks, recreational forests, urban gardens – the authors characterise stakeholder engagement as an open and participatory dialogue between various human – and also non-human – stakeholders. Complex settings can be characterised by diverse and potentially conflicting interests, objectives, and perspectives. This has implications for leadership. When multiple stakeholders are involved, it is likely that conflicts of interest arise. As a consequence, negotiations, co-operation, and collaboration are needed. The chapter by Paula Rossi develops this point further. Rossi suggests viewing leading change as a reflexive practice where conflicts and clashing perspectives are explored and appreciated (Rossi, Chapter 9).

The LFC framework highlights the need to consider leadership in a relational way. This enables co-operation across sectors and the pooling of the strengths of differently positioned individuals and organisations in solving global challenges. It also challenges the status of human beings as central players in change processes, as the chapter by Heikkinen et al. (Chapter 2) shows. However, leadership is usually defined as the human capacity to influence others, or as the ability to guide or direct others. Often, leadership is seen as a personal skill or trait possessed by an individual, or as the capability or competence of a team or organisation.

Research often distinguishes between leadership studies at the individual (micro), organisational (meso), and societal (meta) levels. At the individual level, leadership literature examines leadership from various viewpoints, such as leadership roles (e.g., visionary, contributor, tactician, facilitator) or factors (e.g., strategic, communicative, personal, motivational). At the meso level, research often focuses on organisational performance and

seeks to determine how individual attributes, such as communication skills, are turned into organisational competences and outcomes. In addition to organisational results, it is also important to understand the processes leading to them. It is possible in many organisations to distinguish both top-down and bottom-up leadership processes. In the former, top management – such as a company’s board of directors (see Ruohonen, Chapter 13) – outlines the vision and defines the strategies for the organisation to follow. In the latter, strategies are more emergent and allow members of the organisation and societal stakeholders to participate in defining what is seen as important and valuable (see Kujala, Lehtimäki & Freeman, Chapter 7; Yrjölä et al., Chapter 8).

At the societal or meta level, the most critical leadership challenge relates to global sustainability. The United Nations have set 17 sustainable development goals (SDGs) that all societies and organisations across the planet should take seriously to ensure the present generation leaves the Earth in a liveable state for future generations: (1) no poverty, (2) zero hunger, (3) good health and well-being, (4) quality education, (5) gender equality, (6) clean water and sanitation, (7) affordable and clean energy, (8) decent work and economic growth, (9) industry, innovation and infrastructure, (10) reduced inequality, (11) sustainable cities and communities, (12) responsible consumption and production, (13) climate action, (14) life below water, (15) life on land, (16) peace, justice and strong institutions, and (17) partnerships for the goals (United Nations, 2015). Meeting the global challenges posed by the SDGs means that leaders of various organisations must think beyond the simplistic economic value so entrenched in our current thinking. Instead, they need to understand the importance of multiple societal and environmental values and seek guidance and representation from a diverse set of organisational and societal stakeholders in their decision-making.

Such a collective effort also means moving towards a more shared and relational understanding of leadership in organisations (Ropo, Salovaara, Sauer & De Paoli, 2015). When understood relationally, leadership is a process of influence through which social order (coordination) and change (new values, approaches, attitudes, behaviours) emerge (Uhl-Bien, 2006). While this book focuses on formal leadership, it also argues that in many cases leadership is not limited to a small set of formal leaders. It can take

various forms and occur in different types of organisations and processes. The relational view acknowledges that leadership occurs in bottom-up processes as well as in top-down processes – for example, in the activities of citizens, consumers, activists, and other stakeholders. This is the focus of the chapter by Elina Närvänen, Malla Mattila and Nina Mesiranta (Chapter 14), which highlights the leadership roles of consumer citizens in the reduction of food waste; one of the biggest global sustainability challenges of our time. This chapter – as well as the book as a whole – shows that along with the idea of the complexity of societal challenges, relational leadership itself is a complex phenomenon – a “dynamic system embedding leadership, environmental, and organisational aspects” (Hunt & Dodge, 2000, p. 448).

The relational approach to leadership acknowledges that various practices and activities are required to carry out leadership. Processes that ensure the implementation of great visions – sometimes referred to as management – are also needed. Performance measures or indicators discussed by Tomi Rajala (Chapter 11) are an example of problem-solving tools that can be used to serve leadership objectives. Greenhouse gas emissions, life expectancy, household income, income inequality, inflation, unemployment rate, and economic growth are all examples of performance measures recording whether and how social change is occurring. One of the values of the relational approach to leadership is that it highlights the importance of planning, evaluation, organisation, and control when societies and individual organisations are stumbling through small or large changes. For change to emerge, those in formal leadership positions need to be supported by organisational functions such as indicators that ensure change processes are proceeding in the right direction.

The relational perspective on leadership can be distinguished from the more traditional entity or personalised perspective, which focuses on subjects and objects, and leaders and followers. This perspective understands leadership as the capacity of individual entities, such as persons, organisations, states, or groups of states. Given the imbalances of power between differently positioned actors, it makes sense to take into account the chiasmic existence of both relational and entity-based leadership dynamics. For this reason, this volume also includes chapters

examining examples of more leader-centric or entity-based leadership. Janne Ruohonen explicates (Chapter 13) the mechanisms of protection against liability for damages that enable company directors to make big decisions in complex environments or in conditions of uncertainty. Tapio Raunio (Chapter 12) analyses another example of person-centered or entity leadership: Comparing three semi-presidential regimes, the chapter shows that institutional design has an independent effect on the coherence of leadership enacted by the executive. Marko Juutinen (Chapter 16) takes the discussion of leadership to the global level, posing questions about the extent to which BRICS should be viewed as a new agent in global affairs responding to leadership demands in a changing world order.

## Dynamic Change

Change is a notion that puzzles activists, business leaders, politicians, civil society actors, and managers alike. It comes in many shapes and sizes: it may be small or large scale (Zittoun, 2009), planned or emergent (Hodges & Gill, 2015), evolutionary or revolutionary (Gersick, 1991), and deep or broad (Sabatier & Cerych, 1986). Sometimes it is useful to distinguish change from other related notions, such as adjustment, transition, and transformation. If defining change is not simple, then neither is making change happen. Even simple, small-scale changes can be difficult to make and sustain. Most people have attempted to make a change at a personal level, such as starting to exercise more regularly or adopting a different diet for health or ethical reasons. Sometimes it is difficult to get started, while in other cases sustaining the new routine is the problem.

According to some studies (Burnes, 2011; Hughes, 2011), as many as 70 per cent of all change projects fail to produce the desired outcomes. Organisational change projects may fail for various reasons. They may fail purely because making change happen is not an easy task. Moreover, there are many steps in a change process where the management can make mistakes that lead to failure (Kotter, 2012). Thinking of change in terms of a sequence of incremental steps is the traditional way of understanding social and organisational change (see also Kanter, Stein & Jick, 1992).

The underlying assumption of planned change is that it can be enacted through conscious decisions, reasoning, and action. Change is thought of as a linear sequence of events. The focus is on the controllability of the change process under the stewardship of a competent leader. Typically, approaches that rely on the planned change perspective describe interventions that – as a response to some crisis – “unfreeze” systems, alter some of their features and then “refreeze” the altered system (Lewin, 1951; see also Weick, 2009, pp. 225–241).

When managing projects in the context of small-scale changes in single organisations with clear roles or defined decision-making authorities, a road map detailing the route from the need for change to the practicalities of implementing change may be useful. Indeed, in many organisational contexts, change involves managers trying to improve organisational performance by actively changing something: revising organisational structures, changing the ways of operating, acquiring new competences, or developing new products and services. These projects typically aim at developing customer service, improving profitability, or reaching other relevant organisational goals. However, such step-by-step change models can also be found in programmes that aim at broader societal transformations. The chapter by

Erkki-Jussi Nylén (Chapter 15) in this volume examines the circular economy as a change-provoking concept with the help of which actors can reorient their actions towards a new economic model.

Solving sustainability challenges, addressing societal security threats, and developing employment opportunities in local business environments are issues that cannot be completely planned in a step-by-step manner within any single organisation. As Nylén demonstrates in his discussion of circular economy transition, the notion of change acquires various kinds of meanings in complex, boundary-spanning contexts where the

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Solving sustainability challenges, addressing societal security threats, and developing employment opportunities in local business environments are issues that cannot be completely planned in a step-by-step manner.

joint efforts of several actors or stakeholders are at play. In contrast to the linear conception of change, the LFC framework also recognises that many systems are already unfrozen. In such open systems, some kind of modification is always going on. Change is therefore seen as an emergent, continuous, non-linear process with no finite end-point or causal link between the steps or stages (Capano, 2009, p. 11). Change in any one factor of the system – not necessarily a sequence – may lead to deep changes in the system (Capano, 2009, p. 12).

The emergent view to change is sensitive to the idea that change may result from the decisions and actions of variously positioned individuals. Change may also result from interaction between scales. This ties in to the relational view of leadership. Leading change is not limited to societal or organisational leaders or managers; it is neither a top-down process nor an isolated event. An example of this is the need to reduce food waste. As discussed by Närvänen et al. (Chapter 14), this challenge gives a leadership role to consumer-citizens, but is also connected to wider regulatory and business landscape dynamics, both locally and globally.

Much emergent change may go unnoticed, since it “occurs when people reaccomplish routines and when they deal with contingencies, breakdowns, and opportunities in everyday work” (Weick, 2000, p. 237). Weick (2000) argues that leaders should learn to appreciate emergent change and its effects, encourage experimentation, and create a culture of dialogue where people can speak up when things do not work or antagonisms emerge. This insight resonates with Paula Rossi’s (Chapter 9) discussion of the role of conflicts in change processes. In fact, some scholars have suggested that in the case of complex systems, the idea of a system-fixing change should be abandoned altogether. The focus of change efforts should rather be on identifying a number of points that can be adjusted to improve the overall system. Evolutionary change is a form of such continuous, incremental adaptation and adjustment. When change is understood in evolutionary terms, it preserves some continuity with the past. Perhaps controversially, stability and balance are key ingredients to many evolutionary theories of change. Due to the requirement for balance, changes in one aspect of the system require adjustments in other aspects. Evolutionary theories may

thus end up minimising the effects of change as adaptations and evolutions eventually contribute to the balance of the existing system (Pierson, 2000).

By contrast, a revolutionary change is a discontinuous, radical, and usually unpredictable break from the past. While technological changes associated with industrialisation revolutionised societies in the 18th and 19th centuries (see Nieminen, Chapter 6), artificial intelligence and robotics are considered to have the potential to cause revolutionary changes in contemporary societies (see Voutilainen & Koskinen, Chapter 17). Revolutionary change may also arise as a response to a crisis. It can cause a major shift in the structure of an organisation – be it a state, firm, NGO, or the global economic model. Revolutionary change may also represent a fresh start occurring without warning (Kanter et al., 1992). Revolutionary change is sometimes referred to as a transformational or radical change, as its aim is not to improve and adapt the existing system, but to do things differently – or to do different things. As Erkki Jussi Nylén (Chapter 15) suggests, the idea of revolutionary change is present in those strands of circular economy thinking suggesting a more radical, postgrowth reconfiguration of economic models to meet the sustainability challenges of our time. If systemic change is understood as revolutionary, it has wide-ranging impacts throughout society – for example, in education, legislative, and overall governance systems.

The chapters in this book make it clear that today's leaders face demanding situations in which they must anticipate and adapt to changes, influence desired change processes, and address wicked problems. In these challenging, complex situations, standardised approaches to leadership often do not work. It is difficult to form an accurate and comprehensive view of the situation, and no obvious technical answers are available. There are also limitations regarding which of the relevant aspects of the problem the leader can influence. New leadership capabilities are needed to deal with complex change. It is not easy to provide a definitive list of these capabilities due to the endless amount of different change contexts. Instead, heuristic models and analytical frameworks – such as the LFC framework developed in this book – provide generic and adaptable thinking tools to meet the needs of various change contexts. There is obviously a need to develop this framework further. As Arja Ropo argues in the

afterword chapter, the complexity view of the world is elitist and founded on the possibility of rational thinking. It may leave the embodied and emotional aspects of leadership and change with too little attention. While some of the chapters in this volume consider not only human but also post-human dimensions of leadership (e.g. Chapter 2), further developments of the LFC framework should also consider the implications of the material turn in organisation studies and social sciences. This would mean paying attention to the ways in which social and material processes mutually enact leadership and change (e.g., Dale, 2005).

The dimension of time can also be added to the LFC framework. The concept of the Anthropocene has alerted us to the fact that although a very recent phenomenon in the unimaginably long history of Earth, the presence of humans has had a profound impact on the planet. In fact, if the history of the Earth were a single day, the first humans resembling us appeared at only a few seconds to midnight. Yet, during this relatively short time, we have become a major geological force (Lewis & Maslin, 2018, p. 3). One among the profound environmental changes caused by humans is climate change. Climate change, as a subtle and cumulative process, is a fitting example of how short-termism and long-term consequences collide. Many practical leadership situations are characterised by time-pressures and animated by short-term incentives. Yet, enacting leadership on the damaged planet requires also considering the long-term impact of our actions. Adding the dimension of time to the LFC framework and developing polyrhythmic understandings of leadership provides an important and interesting possibility for the further development of the framework.

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Leading Change in a Complex World: Transdisciplinary Perspectives

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Edited by Anni Kangas, Johanna Kujala, Anna Heikkinen,

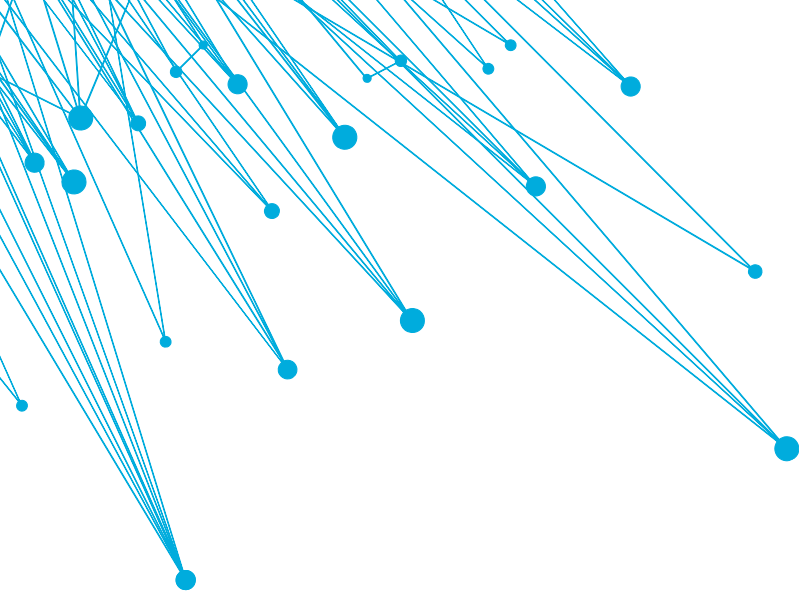
Antti Lönnqvist, Harri Laihonen and Julia Bethwaite

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PART I

# Complex World





# Complex World

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This section discusses and provides tools for analysing a set of complex societal issues. As the Leadership for Change approach suggests, complex issues are not only complicated. They are characterised by the interconnectedness of various factors and cross-sectoral dynamics. **Urbanisation** is a global challenge that in many ways exemplifies such complexities. Anna Heikkinen, Jere Nieminen, Johanna Kujala, Hannele Mäkelä, Ari Jokinen and Outi Lehtonen examine the complexities of urban ecosystem services such as parks, recreational forests and urban gardens. Analysing these issues through stakeholder engagement, they highlight the importance of positioning nature as a stakeholder and focusing not only on how human stakeholders but also humans and nature interact in complex settings. Urban and metropolitan regions are another example of urbanisation-related complex systems. The chapter by Ilari Karppi and Jarmo Vakkuri introduces the concept of boundary objectives as a tool with which to make sense of complexities related to urban and metropolitan regions and cooperating across institutional and sectoral borders. **Security and its governance** are also increasingly complex. Tapio Juntunen and Sirpa Virta argue that resilience has emerged as a new type of security mentality to replace the traditional and linear security logics of defence, protection, and prevention. **Population ageing**, which Hanna Salminen analyses, is a megatrend currently influencing societies and organisations around the world. It is a complex issue inasmuch as it is connected to various other societal dynamics such as regulation, the skill level of the workforce and global economic cycles. The complexity of ageing also means that it exposes differing perspectives and potentially conflicting political views within society. The chapter by Martti Nieminen shows how the transition from the brick and mortar economy to the digital economy has dramatically transformed the setting of **international business taxation**. Through this case, Nieminen drives home the point that managing complex and systemic changes requires understanding a multiplicity of fields and leadership beyond institutional boundaries.



## CHAPTER 2

# Stakeholder Engagement in the Generation of Urban Ecosystem Services

ANNA HEIKKINEN, JERE NIEMINEN, JOHANNA KUJALA,  
HANNELE MÄKELÄ, ARI JOKINEN & OUTI LEHTONEN

## Takeaways for Leading Change

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This chapter highlights the importance of nature in urban environments. It discusses how future leaders in business, government and other organisations can foster openness and incorporate nature into the process of generating urban ecosystem services through stakeholder engagement. As an open and participatory process, stakeholder engagement highlights uncertainty and ambiguity, which are, and should be, embraced as part of the process. Stakeholder engagement can serve as a starting point for more open and participatory dialogue between various human and non-human stakeholders. Stakeholder engagement as an open process can also offer room for collaborative processes where surprises and other unexpected elements are recognised as openings for continuous experimentations and new opportunities. Such processes are especially required in solving wicked global problems and sustainability challenges that require recognising the complexity of the obstacles involved and accepting varied understandings of what are perceived as desired outcomes.

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Sustainable development is generally defined as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development [WCED], 1987, p. 8). In cities, the major challenge is how to ensure and balance economic, ecological, and social sustainability dimensions now and in the future (Finco & Nijkamp, 2001). This challenge has become increasingly pressing given that more of the global population now lives in urban than rural areas and the rate of urbanisation is estimated to increase rapidly in the next three decades (United Nations, 2014). Ever-growing cities face many sustainability-related threats, such as climate change, overpopulation and growth at the expense of terrestrial and marine capacity, while at the same time cities are a significant source of these problems. Cities create over 70% of global greenhouse gas emissions and consume two-thirds of the world’s energy (C40 Cities, 2018). However,

cities can also provide opportunities and be a source for developing solutions to sustainability challenges. Sustainable development has become a dominant policy paradigm and a strategic goal for several cities (Finco & Nijkamp, 2001; Jokinen, Leino, Bäcklund, & Laine, 2018).

Urbanisation and the expansive growth of cities highlight the significance of urban nature to city dwellers. As cities grow larger and denser, natural areas located within cities are increasingly required to provide numerous life-supporting and life-enhancing opportunities to urban citizens (Fischer & Eastwood, 2016; Standish, Hobbs, & Miller, 2013). These opportunities can be conceptualised as ecosystem services, defined as “the benefits that humans obtain from ecosystems [...] produced by interactions within the ecosystem” (Millennium Ecosystem Assessment, 2005, p. 3). Urban ecosystems such as parks, recreational forests, urban gardens, green roofs

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The aim of this chapter is to shed light on stakeholder engagement in the generation of urban ecosystem services. We position nature as a stakeholder and focus on how humans and nature as stakeholders interact and participate in the generation of stormwater systems.

and conserved natural habitats provide, among other benefits, fresh air and water, nutrition, health, recreation, and well-being for city dwellers.

The aim of this chapter is to shed light on stakeholder engagement in the generation of urban ecosystem services. Specifically, we position nature as a stakeholder and focus on how humans and nature as stakeholders interact and participate in the generation of ecological stormwater systems. Recent discussions have highlighted that the remaining blocks of natural habitat are insufficient to keep cities liveable. Instead, attention has turned to the active generation of urban ecosystems and the interaction between humans and the natural environment in this generation (Fischer & Eastwood, 2016). Public parks in cities are a well-known example of urban ecosystems; these are open greenspaces used primarily for recreation and accessible to all urban residents. They are regarded as offering important ecosystem services for improving the quality of urban life and the health of city-dwellers.

A more recent example of urban ecosystems is the generation of vegetated green roofs that complement other green networks in cities. Besides biodiversity benefits, green roofs gather and retain rainwater and help alleviate flooding problems, and thus enhance urban sustainability. Future opportunities for rooftop biodiversity and ecosystem services are extensive, as today's urban footprint includes more than 20% of roof cover (Sutton, 2015). Green roofs are also a prime example of stakeholder engagement in the process of generating urban ecosystem services. The green roof industry provides standardised diverse solutions for old and new buildings, which are implemented and maintained in collaboration with stakeholders.

To sum up, we are witnessing a new era where the idea of urban nature has changed from being a refuge separate from the urban structure to a crucial component of the built environment. "Re-naturing" cities involves understanding urban ecosystems as part of climate adaptation and the systemic interrelations between ecology and society (Duvall, Lennon, & Scott, 2018). Consequently, the networks governing urban green areas are undergoing fundamental change. While city planners and officials have traditionally been in charge of green area management, citizens and business organisations are now increasingly involved in these processes (Jokinen, Asikainen, & Willman, 2017; Whiteman et al., 2011). Accordingly, urban ecosystem services are currently generated in

collaboration and cooperation with various stakeholders in the public and private sectors and civil society.

This chapter contributes to the discussion on the future leadership of urban environments by examining how business organisations, the public sector, local communities and nature participate in the generation of urban ecosystem services through stakeholder engagement. The following conclusions are drawn. First, urban ecosystems, such as integrated stormwater systems, provide various benefits to city dwellers through socio-ecological processes. Second, the generation of urban nature is an inherently complex process that includes unforeseen and unexpected elements. The interactive and reciprocal human and non-human processes should be acknowledged and appreciated. In these processes, neither the participants, processes nor the outcomes can be foreseen or predefined; rather, indeterminacy, surprise, conflicts, and experiments are embraced. Third, wicked global problems and sustainability challenges require recognition of the complexity of the issues at hand, as well as acceptance of varied understandings of what are perceived as desired outcomes.

The chapter proceeds as follows. First, we utilise environmental politics and stakeholder management literatures to present recent discussions on urban ecosystem services and develop a conceptual understanding of stakeholder engagement in the context of these services. Next, we illustrate stakeholder engagement through the case of urban stormwater systems. Finally, we discuss how humans and nature as stakeholders can engage in the generation of urban ecosystem services, and how the elements of surprise and uncertainty can be acknowledged in these processes.

## Urban Ecosystem Services and Stakeholder Engagement

Urban ecosystem services represent an important approach to enhancing urban sustainability. They are crucial for improving both the natural environments and the quality of life in cities (Gómez-Baggethun et al., 2013). The concept of ecosystem services proposes that the functionality

of ecosystems provides goods and benefits for humans that are realised when someone actively or passively requires, demands, or uses them (Millennium Ecosystem Assessment, 2005). These goods and benefits can include both material and non-material elements; material elements include food, water and nutrient cycling, and non-material elements incorporate benefits such as opportunities for recreation and pedagogy (Millennium Ecosystem Assessment, 2005).

Urban ecosystem services are distinct from ecosystem services elsewhere as they are intertwined with many non-ecological urban elements, including physical infrastructure, technology, social practices, and cultural contexts (Andersson et al., 2014; Kremer et al., 2016). While urban ecosystems alone are not able to maintain life in cities, they are needed increasingly to complement rural ecosystems (Andersson et al., 2014). Recent research on urban ecosystems has suggested that while the crucial natural resources and processes in urban environments need to be preserved, urban ecosystems need also be actively restored and generated. The urban context also highlights the socio-ecological interactions that take place and shape urban ecosystems (Fischer & Eastwood, 2016).

Stakeholder engagement has become an important approach for examining and managing sustainability issues as it provides the means to understand the complex and pluralistic interests, relationships and interaction within and among various organisations (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; Greenwood, 2007; Kujala & Sachs, forthcoming). Stakeholder engagement refers to practices organisations undertake to involve stakeholders in a positive manner in their activities (Greenwood, 2007, p. 315), or to the embeddedness of stakeholders' objectives, expectations, actor relations and actions in the leadership of an organisation (Maak, 2007). Stakeholder engagement can also be seen as an inclusive decision-making process that promotes equity, enhances local decision-making and builds social capital (Mathur, Price & Austin, 2008).

The traditional definition of a stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). The issue-based stakeholder view, however, takes a wider perspective by emphasising the issues that affect the well-being of and relationships among stakeholders. To understand

the generation of urban ecosystems, the centre of attention should shift from a single company or organisation to the issue at hand (i.e., to the collaborative generation of urban ecosystem services). The issue-focused perspective highlights that the goal is to approach and share understandings regarding the generation of urban ecosystem services instead of protecting the interests of any particular organisation (Roloff, 2008).

While most stakeholder research has included only human entities as stakeholders, an increasing number of studies argue that nature can also take on stakeholder status (e.g. Driscoll & Starik, 2004; Laine, 2010). The traditional stakeholder approach posits that as nature cannot voice claims or expectations. It cannot act as a stakeholder and can only be represented by other actors, such as individuals and environmental organisations (Laine, 2010). However, Driscoll and Starik (2004) argue that nature can be regarded as a stakeholder in the same way as the local community and the public.

Stakeholder engagement processes can deliver many positive outcomes, ranging from knowledge creation to social learning, but they can also act as important means of enhancing sustainable development (Mathur et al., 2008). According to Freeman, Kujala, Sachs, and Stutz (2017), integrative stakeholder engagement consists of (1) examining stakeholder relations, (2) communicating with stakeholders, and (3) learning with stakeholders. Kujala, Lehtimäki and Myllykangas (2016) emphasise the importance of joint interests, the ability to collaborate and trust as important elements of stakeholder engagement. Moreover, understanding the relationship dynamics and actor identities is paramount in the analysis of stakeholder engagement processes (Lehtimäki & Kujala, 2017).

Heikkinen et al. (2019) suggest the ideas of radical democracy are useful for considering stakeholder engagement in complex socio-ecological settings such as urban ecosystem services. Radical democracy allows, first, for the consideration of both human and non-human stakeholders as participants in open processes, and second, for the appreciation of complexity, difference, and disagreement in the engagement process. They further argue “an open approach to various ways of communicating and expressing views is necessary when the aim is to include both human and non-human participants” (Heikkinen et al., 2019, p. 123). The challenges that remain are how to recognise and balance the various stakeholder

interests inherent in the socio-ecological processes and how to generate open processes with the potential to enhance sustainable development. For example, the motivations of business organisations for engaging with environmental issues include interests such as competitiveness, legitimisation, and ecological responsibility (Bansal & Roth, 2000), while citizens may look for recreational use and improved well-being.

In brief, the open process perspective on stakeholder engagement posits the processes, participants, or outcomes of participation cannot and should not be predefined (Brown & Dillard, 2013). In the generation of ecosystem services, this means there might be unexpected elements active in the process (Lindenmayer, Likens, Krebs, & Hobbs, 2010).

## Stakeholder Engagement in Stormwater Systems

To illustrate stakeholder engagement in the generation of urban ecosystem services, we have explored integrated stormwater systems. We collected empirical data from six stormwater systems in three large cities in Finland: Helsinki, Vantaa and Tampere. The empirical data included field observation material, document analysis, and indoor and field interviews conducted with 14 consultants and city officials. The data were collected from 2015–2017.

Integrated stormwater systems represent both a novel solution and a policy transformation in urban ecosystem service generation. Stormwater systems aim to handle rainwater and melt water (i.e. runoff water) by delaying, filtering and purifying the water. Integrated stormwater systems refer to the integration of stormwater practices into the urban landscape by using, for example, ponds and creeks as alternatives to piped solutions in surface runoff water management. The integrated systems combine water and vegetation in various ways and increase multifunctional land use in urban areas. These systems are gaining support in cities; they increase climate resilience and flood protection, improve runoff water quality, and at the same time provide many other ecosystem services such as recreational use, biodiversity conservation, scientific research, and aesthetical landscaping (Cettner, Ashley, Viklander, & Nilsson, 2013; Hoang & Fenner, 2016).

We focused on four key stakeholders of the integrated stormwater systems, namely business organisations, the public sector, the local community, and nature. Here, business organisations were mostly consulting companies which typically draw up the plans and designs for the development and maintenance of stormwater systems. Our cases were initiated by the public sector, including the city officials, civil servants, and researchers working for the city governments. Local community refers to the people living in or near the stormwater systems, as well as the citizen groups and associations who are the main users or beneficiaries of the systems. Nature as a stakeholder denotes the water and vegetation generated in the stormwater systems, including their diverse and evolving entanglements. In stakeholder engagement, we focused on the actor identities (Lehtimäki & Kujala, 2017), the nature of stakeholder collaboration (Kujala et al., 2016), and the elements of uncertainty and surprise (Lindenmayer et al., 2010), as presented in Table 1.

	BUSINESS ORGANISATIONS	PUBLIC SECTOR	LOCAL COMMUNITY	NATURE
ACTOR IDENTITY	<ul style="list-style-type: none"><li>• Developer and producer of stormwater systems</li></ul>	<ul style="list-style-type: none"><li>• The initiator, coordinator, financier, and supervisor</li></ul>	<ul style="list-style-type: none"><li>• Users, contributors, and co-dwellers of the stormwater sites</li></ul>	<ul style="list-style-type: none"><li>• Contributor to the ecological functionality of stormwater systems</li></ul>
COLLABORATION	<ul style="list-style-type: none"><li>• Contractual collaboration with the public sector</li></ul>	<ul style="list-style-type: none"><li>• Contractual collaboration with business organisations</li><li>• Formal communication with the local community</li></ul>	<ul style="list-style-type: none"><li>• Formal and spontaneous communication with the public sector and business organisations</li></ul>	<ul style="list-style-type: none"><li>• Participation through appearance, manifestation and functionalities</li></ul>
ELEMENTS OF UNEXPECTEDNESS	<ul style="list-style-type: none"><li>• Uncertainty related to new products</li><li>• Uncertainty and unpredictability of ecological processes</li></ul>	<ul style="list-style-type: none"><li>• Uncertainty related to local community involvement and use of the area</li><li>• Uncertainty and unpredictability of ecological processes</li></ul>	<ul style="list-style-type: none"><li>• Uncertainty related to the development of the housing area</li><li>• Uncertainty related to the appearance of the stormwater site</li></ul>	<ul style="list-style-type: none"><li>• Surprises through unforeseen ecological processes</li></ul>

TABLE 1. Stakeholder engagement in stormwater systems

*Business organisations* are the designers and producers of stormwater systems, typically in collaboration with the public sector. This collaboration is also a vital opportunity for business organisations to develop and test new products and services. In these processes, it is typical that business organisations seek to integrate project profitability with knowledge development. Businesses consider the development of expertise on stormwater systems as a means to become pioneers and front-runners in sustainability and in creating sustainable business opportunities.

Business organisations mainly have contractual collaboration with the public sector. This collaboration is often centred on innovative and enthusiastic individuals who are motivated to engage in the development of new products. Business organisations also collaborate with other organisations both domestically and internationally when developing their products. Since stormwater systems are not widely established structures, they involve many elements of unexpectedness, uncertainty and surprise. For business organisations, this means dealing with obstacles and the constant need to research and develop their products.

The generation of stormwater systems is framed by public interest. The *public sector* – city officials, civil servants, and researchers working for the city government – is the initiator of these processes. The public sector is also responsible for coordinating, financing, and supervising the generation of the stormwater systems, and it enables new research and experiments to emerge in the field.

In addition to contract-based collaboration with business organisations, the public sector engages with the local community through formal hearing processes that allow people to voice their interests. Local people can also give informal feedback to the public sector. The public sector collaborates with local and international peers, such as other cities and research networks. Much like the business organisations it also faces some elements of uncertainty and surprise. These uncertainties can relate to the involvement of local communities as well as the unpredictability of the ecological elements related to stormwater systems.

The *local community*, including the people living in the area and citizen groups and associations identified as users and co-dwellers, contributes to both the design and the development of stormwater systems through their

everyday activities in using the area. For example, local people might have a habit of taking a certain route through the area. This activity may become an element in the design of the area or, over time, it might change the area as new pathways develop spontaneously. However, in the design and the production of the stormwater systems, the role of the local community is still relatively minor compared to the more powerful public sector and business organisations.

The local community collaborates with the public sector through both formal and informal processes. From the perspective of collaboration, the local community has essentially been the object of business organisations' and public sector activities and communication. However, the collaboration within the local community – among local dwellers and citizens' associations – might be active and close. For local communities, stormwater systems are still mostly foreign, and therefore can cause some surprises and uncertainties. For example, local communities may expect constant water elements when they see a blue colour in the plans, while stormwater systems might actually be dry green areas most of the time. Another element is the uncertainty related to the development of housing, as local communities may not see stormwater systems as a desired element in the area. In addition to being surprised and even disappointed, local

communities can themselves unexpectedly affect the stormwater systems, for example by creating paths, building their own dams and making minor changes to the structures.

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## Ecological processes take place irrespective of human influence.

*Nature* is a key stakeholder in the generation of stormwater systems, given that natural processes render the ecological functionality of stormwater sites possible. The ecological processes taking

place in the stormwater systems are both autonomous and responsive to human activities. This means that human activities can influence the ecological processes, but cannot alone determine the outcomes of these processes. Some kinds of ecological processes take place in any case, irrespective of human influence or the absence of such influence.

Nature engages with human stakeholders by appearing, manifesting, and functioning in stormwater sites. Mostly, nature is the object of, and shaped

by, the activities and expectations of other stakeholders and continually creates conditions for their actions. As a stakeholder, nature produces unexpected elements through unforeseen ecological processes.

## Discussion

This chapter presents stakeholder engagement as a collaborative process in which openness is valued. Accordingly, the various stakeholder interests and expectations are viewed as important, without seeking a consensus or compromise (Brown & Dillard, 2013). Stakeholder engagement in the generation of urban ecosystem services allows different parties to foster various interests. Stakeholders may have divergent interests and motives yet still see value in collaboration (Kujala et al., 2017). For example, business organisations are increasingly present in developing and producing solutions for urban environments. Through this, they aim to establish and strengthen their market position and enhance their profitability. The expectations that business organisations have when engaging in the generation of urban ecosystems are often tied to their core actions, as they aim to deliver a profitable project to their customers, create new market opportunities, and develop new products and expertise. However, engagement in the generation of stormwater systems is also seen as a way to enhance their image as a front-runner and innovator in sustainable solutions.

For the public sector, the main interest in participating in stormwater systems is to produce attractive living areas for citizens. Cities may strive to become pioneers in stormwater management and sustainability by integrating stormwater systems in city governance. Moreover, the public sector aims to follow the global developments in stormwater control and manage risks and costs through integrating effective stormwater systems. Public sector actions can also stem from the expectation of enhancing nature and biodiversity.

The interests of local communities in stormwater systems can be described as the desire for pleasant, convenient and green residential areas. This stakeholder group expects concrete changes such as water elements within the residential environments. They are considered passive currently,

seen more as objects of other stakeholders' activities. However, their role might grow in the future given their increased involvement in the process.

Our exploration of stakeholder engagement in stormwater systems demonstrates how nature can be acknowledged as a stakeholder. Stormwater systems form a particular context in which nature takes shape situationally in various ways, but without any promises to humans about positive or negative outcomes. From the point of view of nature, relations with other stakeholders can be described as nature being the object of other stakeholders' actions, and also reacting to these actions. These relations are commonly informal and spontaneous. In line with this observation, human engagement with nature occurs largely through nature's appearance and manifestation or by its active agency in its stakeholder role (Leino, Karppi, & Jokinen, 2017). Nature's collaboration with other stakeholders can also be described as being shaped by the social activities of other stakeholders.

How to lead complex changes where nature takes a stakeholder position? The discussion presented here implies it is not possible or fruitful to define a narrow stakeholder identity for nature. This conceptualisation should be clarified so that nature is not furnished with human characteristics, however. Nature has no objectives, expectations, interests, goals or trust in the sense we humans have, but yet the conceptualisations should go beyond the traditional stakeholder approach when referring to nature.

We conclude with the following argument: In the generation of urban ecosystem services, we should appreciate interactive and reciprocal human and non-human processes. Stakeholder identity varies situationally. There is no sense in adopting leadership seeking to command and control human-nonhuman processes in a linear fashion. Instead, the leadership required for change should create circumstances where enabling and constraining conditions provide space for the desired course of development.

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## CHAPTER 3

# Organising Complexity: Creating Boundary Objects for Sustainable Urban Development

ILARI KARPPI & JARMO VAKKURI

## Takeaways for Leading Change

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This chapter examines the pursuit of smart and sustainable urbanism. Sustainability is understood as integrated policy and planning measures carried out in cities and city regions. The chapter shows that even if the general goal of sustainability promotion can be compressed to generic planning guidelines, localities and city regions resort to situational interpretations and instruments to reach them. The chapter introduces boundary objects and boundary work as a theoretically interesting and empirically tested method for organisations and actors to make sense of changing environments. On this basis, it discusses how new decision-making spaces emerge and are identified as a call for new forms of leadership. The implications of this research for leading change in a complex world are manifold and layered. It shows that transformations such as urbanisation have equally systemic repercussions that national institutions seek to manage and then transfer to local and regional actors, which produce measures and outcomes. These transformations may take the form of ruptures that shake the established roles of local and regional actors and the very foundations of their division of labour. Finally, ruptures, changing roles and confusion should prompt organisations to reconsider the scope of their action and the logic of having and maintaining current organisational boundaries.

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Urbanisation is a planetary process. *Homo sapiens* are now a predominantly urban species. Cities are thus the key arenas for humankind to keep its planet habitable (see Madanipour, 2006). According to the World Bank estimates, 54 percent of the global population was urban in 2016. For North America this figure was 82 and for the European Union 75 respectively (WB, 2018). The sustainability challenge of avoiding the depletion of natural resources and risking the ecological balance at the expense of future generations is a task faced in a predominantly urban environment (Goodbun, Till & Iossifova, 2012). However, pursuing sustainability in an urban setting is a complex task. It comprises a multi-faceted, multi-sectoral and highly complicated web of choices, with numerous actors operating according to their own, and not infrequently conflicting, visions of promoting sustainability.

To achieve sustainability, decision-makers need devices and artefacts to connect the worlds of dispersed groups of actors and organisations (Kahneman, 2003; Vakkuri, 2010). Boundary objects may constitute one such artefact. Boundary objects, as conceptualised by Star and

Griesemer (1989, p. 393), are “both plastic enough to adapt to local needs and the constraints of the several parties employing them, yet robust enough to maintain a common identity across sites”. They may either show connections between seemingly detached decision-making processes or play down obstacles that are imaginary or institutionally cooked up rather than real (cf. Quick & Feldman, 2012, pp. 17–18). Such boundary objects, even if weakly structured at the level of their common use, become more structured in local uses where institutions and actors attach meanings to highly

This chapter examines complexity through an inquiry into how linking organisational or other boundaries occurs in the pursuit of sustainable urban development.

complicated phenomena, such as sustainability. However, boundary objects are social constructions. They are devised to serve specific goals, such as acting as intermediaries between groups with different interests

(Guston, 2001). For this they require actors who connect the detached worlds, a process here referred to as “boundary work”.

We approach boundary objects as analytical tools for discussing the means that eventually structure cross-sectoral cooperation for promoting sustainable urban development. Boundary objects and boundary work give organisations and actors an opportunity to make sense of their changing environment and what this change requires from them. We ask 1) what is the role of boundary objects and boundary work in the promotion of sustainable urban development in Finnish city regions, 2) how do different actors promote their interpretations of sustainability, and 3) what is the role of administrative and other systemic reforms to the design of boundary objects?

The purpose of this chapter is to examine complexity through an inquiry into how linking organisational or other boundaries occurs in the pursuit of sustainable urban development. We claim that institutionally weak urban regions are more suitable platforms for boundary work than the siloed administrations of institutionally strong municipalities. The territorial scale for our empirical scrutiny comprises Finnish city regions and the complexities and solutions for promoting sustainability. We give a practical example of how organisations working with different aspects of sustainability can utilise boundary objects in order to reach a common ground.

The chapter proceeds as follows: The next section discusses urbanisation as an agglomerated problem. We then discuss what pursuing sustainability in an urban contexts means. This is followed by the discussion of MAL+PE, a Finnish agreement-based version for promoting sustainable urban development. In the empirical section of the chapter we analyse, by focusing on one aspect of the MAL+PE process, an example of the creation of boundary concepts in the context of urban sustainability. We argue the negotiated MAL+PE arrangement enables the use of sustainable and integrated policy and planning measures. By so doing it can be seen as a means to organise the complexity inherent in sustainable urban development. The chapter draws its inspiration from the Finnish city region with the most promising track record in MAL+PE

work, the Tampere city region, but will also shed light on city regions as a sustainability policy arena in more general.

## Urbanisation as an Agglomerated Problem

Humankind is at a crossroads marked by a dense mixture of agglomerated problems. Agglomerated problems are made of many intertwined challenges met simultaneously. First, *the critical natural resources* that originally allowed the evolution of a modern society are finite. Second, *populations are ageing*, first in industrialised societies and after a while throughout the world. Third, *the entire world grows more urbanised* with new forms of urban communities and new transformational dynamics emerging everywhere (e.g. Saunders, 2011; Ehrenhalt, 2012). Finally, *the changing climate* ensures that nature will not let human communities function unchanged (cf. Pirani & Tolckoff, 2014; Sunstein, 2007). Urbanisation, demographic transformation, resource scarcity and unpredictable weather highlights the necessity to use the building blocks of dignified human life, starting from cultivable land or drinkable water in a responsible manner (Goodbun, Till, & Iossifova, 2012) – and to find new ways and new resources to nurture the resilience of ever wider cities and metropolitan areas.

A worthwhile option in responsible resource-use stems from the modern industrial logic: use them more efficiently. The idea is extremely logical, as sprawling suburban designs produce extensive greenhouse gases in the form of greater per capita infrastructure investments and traffic output compared with greater or traditional urban densities. Urban sprawl as a term refers to inefficient and sparse suburban settlement structures. James H. Kunstler (1993) once dubbed it the greatest resource misallocation in the history of humankind. A more compact and connective urban form with layers of mixed use enhancing its multifunctionality has been a key urban design strategy to resist sprawl (CNU, 2009). New urbanism, an influential planning ideology, has evolved from an urban development resistance movement to a source of planning rules and paradigms particularly cherished by city planners. This reflects the gradual awakening of the planning profession to the

threat sprawl poses to all aspects of sustainability, from ecological to economic (Chakrabarti, 2013).

New urbanism fights urban sprawl through promoting walkable urban environments, finding ways to develop human-size neighbourhoods in a transit-oriented way without compromising the ecological aspects of sustainable urbanity. These are now widely considered essential elements of responsible or “good” urban planning and design – not only in the American home ground of new urbanists, but worldwide. A major handicap of this planning ideology comes from the restrictions set by geographical scale: it works best at the neighbourhood and city district level. However, the basic units of territorially extensive urban networks are large city regions, the natural venues for suburban sprawl. Many of the tools employed by new urbanist planners tend to be insufficient on larger scales.

One strategy for escaping the scale limits of neighbourhoods or urban districts is *smart growth*. This idea has also emerged from the new urbanist movement but focuses on the dynamics and drivers of growth and change instead of the physical design of a particular city (cf. Vanolo, 2014). Another promising approach to the promotion of more sustainable urban development is *smart urbanism*. It, in the words of Hajer (2014), calls for an entire language that expresses more than efficiency and technology. In many culturally important instances these traditional domains of smart city thinking are infested with unfulfilled expectations for better urbanity or development (Townsend, 2014; Graeber, 2015, p. 109).

Continuous urbanisation and the enlargement of the urban scale follows from global competition. No urban design paradigm or cultural critique can turn that process around. Finland is no exception to this development. In Finland, growing urban entities comprising of entire functional systems made up of central cities and their neighbouring municipalities has emerged as the basic component of societal development, breaking and dissipating the traditional urban form (Karppi, 2017). The merging of municipalities, reforms of public administration systems and support of various forms of intermunicipal cooperation have all contributed to this gradual transformation. But the scale expansion that has followed has come with a price. Rapid demographic growth and dynamic economies in the largest and best-connected city regions, which have superior educational

institutions and broader service systems, have led to intense land-use pressures as well as challenges in long-term financial sustainability. This puts them at the forefront for mitigating the repercussions of growth, including urban sprawl and due resource inefficiencies.

## Pursuing Sustainability and How to Get It “Right”

Pursuing sustainability in an urban context typically requires different actors to reach a common understanding through the “lowest common denominator”. This satisfies the minimal requirements of distinct world views by capturing characteristics that fall within the minimum acceptable range of those world views (Star & Griesemer, 1989, p. 404). The method involves the utilisation of “versatile, plastic, reconfigurable (programmable) objects that each world can meld to its purposes locally” (Star & Griesemer, 1989). Boundary objects are created through this process. This requires conceptual clarity, which may, however, become compromised by the approaches of institutionally embedded actors to the basic elements constituting these objects.

The case of pursuing urban sustainability is ultimate particularly for the atmospheric magnitude of climate change and other large-scale *unknown unknowns* involved. Such “things we do not know we do not know” and their multiple origins have been revealed by Keenan (2014) in a study of the ambiguities faced by commercial real estate actors in their attempts to adapt to climate change. Ambiguities abound, and they should make different stakeholders receptive to each others’ views and sensitive to their capacities to turn out information from which they all can benefit. By contrast, in more routine governance settings, sectoral boundaries limit the scopes of administrations and cocoon individual actors and administrators. This not only allows them to stick to their siloed routines, it allows them to legitimately ignore information that might compromise them.

Established routines may also involve complicated issues. Pursuit of important but ambiguous goals such as sustainability is a prime example of a complex process. This complexity is not reduced by the fact that the general context of measures for striving towards greater sustainability is rapidly

changing. Due to the scale of urban expansion, the world is becoming not only more urban but also metropolitan or “city regional”. Metropolitan, as a spatial scale, refers to an amalgamation of municipalities that comprise an integrated labour market area and related economic interests joined together by a dense and high-capacity regional traffic system (Ehrenhalt, 2012). Functionally, scale expansion means new actors, with their responsibilities, priorities and interpretations, meet and try to find common grounds as they work with complex and moving targets such as promotion of sustainability in urban development.

Moreover, scale expansion has contextual features. In Finland, this entails a peculiar leadership challenge: it evokes, to dramatise a little, institutional zombies. This is due to the fact that the institutional apparatus for urban and regional planning as a domain for pursuing sustainable development, does not acknowledge the metropolitan – or city region – level. One step down, there are municipalities with broad planning, nature protection and service provision responsibilities. One step up, there are the regions (in Finnish *maakunnat*), the nascent units of self-government responsible for the implementation of national policy goals pertaining to local land-use and other planning procedures. City regions, while trying to tackle major sustainability (policy) issues, have to do it through negotiation and by making themselves useful to the municipalities they represent. Their administrative powers to bring forth regional interests that should be apart from those of the municipalities are akin to pushing with a rope. It is no wonder only a few city regions have established formal agencies to work on that scale.

In the following we approach the sustainability measures pursued in the Tampere city region by looking at the siloed routines and practices of different municipal administrations. While doing so we necessarily reveal these routines as agency and administration-labelled proxies (cf. Buckingham-Hatfield & Evans, 1996, pp. 4–5). Proxies like these are the interpretations of different actors as to how the “pursuit of sustainability” is portrayed through their own practices, routines and responsibilities. All actor-based proxies taken together, they may eventually constitute some form of

Pursuit of important but ambiguous goals such as sustainability is a prime example of a complex process.

sustainability aggregate; a rough, partly overlapping, partly complementary set of activities all seeking to promote sustainability. Proxies, we argue, are virtually inevitable. They stem from a division of labour recognisable in any multifunctional system. The multifunctional nature of a system is a reflection of complexities that are the basic features of governance as well as an outcome of the system's interaction with its environment.

The institutional haziness of city regions can also work for the benefit of thinning out if not entirely dismantling the boundaries of administrative silos – brought to city regions by the customary division of labour in their adjoining municipalities' administrative structures. As we noted, reaching sustainability outcomes necessarily calls for cross-sectoral work that is notoriously hard for formally-empowered administrative bodies and agencies. However, if the city regions and their evolution do not acknowledge sectors in the way that administrations and agencies do, why should they be injured by the lock-ins caused by these institutional features? Instead, working in the context of urban regions makes it possible to design and utilise proxies that transcend the typically results-oriented goals of agencies in order to create new types of boundary objects. The boundary work this redesigning requires, we argue, is necessary in tackling the problems of multi-faceted and still siloed planning practices in city regions.

City regions are administratively crippled even in their institutionally strongest form, represented here by the Tampere city region. Given this, we enquire into the role cross-sectoral cooperation between its member municipalities' could play in coordinating and essentially putting together the proxies for sustainable development. Furthermore, we ask what kinds of arenas exist, or may be needed, for this coordination. As the subject of this coordination is sustainability, we also acknowledge the much-debated question: Can sustainability be planned in the first place (cf. Meadowcroft, 1999)?

## MAL+PE as a Sustainability Regime

The empirical section builds on findings and analyses several Finnish city regions, using the Tampere region as the primary case. For policymakers,

looking at city regions instead of individual municipalities verges on a contradiction in terms: from a global perspective Finnish municipalities have an exceptionally strong constitutional position with self-government that also includes local taxation. Due to this, large-scale public-private partnerships in large infrastructure and other projects have been rare in Finnish municipalities, with Tampere region again an exceptional case (cf. Valkama, Oulasvirta & Karppi, 2016). Land use and much of infrastructure, housing and even biodiversity policies are composed by municipalities; albeit often in co-operation with central government institutions. In comparison, the position of city regions, newcomers on the Finnish administrative map, is based on consent among different actors. This consent constitutes the key artefact to boost integrated urban policymaking and shatter the administrative silos that effectively maintain land use, traffic, housing, business development and service production as separate policy areas in municipalities.

Due to this feature, the entire MAL+PE framework can be seen as a Finnish boundary object for promoting sustainable urban development. Particularly in the case of Tampere city region it has the form of an entire boundary organisation created by the region's municipalities. The core component of MAL+PE is MAL, a Finnish acronym that comes from the words land-use (in Finnish, *Maankäyttö*), housing (*Asuminen*) and traffic (*Liikenne*). Currently, co-operation among the municipalities of four largest city regions and the national government is based on MAL agreements. The proto idea for MAL was first introduced in 2009 as part of the proposed government reform of municipalities and their service provision (Maankäytön..., 2015). The government's role becomes most visible through its participation in regionally relevant investments, spearheaded in the Tampere city region by the new light rail system.

A MAL prototype action was initiated in the beginning of the year 2010 and evaluated already during the latter part of 2011 as part of broader

From a global perspective, Finnish municipalities have an exceptionally strong constitutional position with self-government that also includes local taxation.

government programs on regional cohesion and competitiveness. Simultaneously, a practice and experience-based volume on contemporary planning of urban areas was published by a newly created actor, MAL Network (Kurunmäki, Uusivuori, & Hanhijärvi, 2011). This network was established in the Tampere city region to build on the experiences of municipalities in the second-largest urban area in Finland. In the closing words of that volume, Dr. Kimmo Kurunmäki, the then leader of the MAL network envisioned its next phase until 2013. This included the provision of public services and business development – or *vitality policies* in the governance newspeak – making one of their first appearances in the future design of the MAL configuration.

The original MAL is regularly extended to MALPE (or MAL+PE) with P for services (in Finnish *Palvelut*) and E for business development (*Elinkeinot*). Yet, before continuing and particularly before branding MAL/MAL+PE as a ground-breaking institutional innovation, a brief disclaimer is necessary. The integrated approach to the various elements defining the planning of urban or any other geographic areas has an extensive track record. One should keep in mind the original approaches to cities and their environs as promoted by Patrick Geddes's idea of a regional plan or Patrick Abercrombie's Green Belt of London with its present-day offspring, yielding to the much praised Portland growth boundary (e.g. Mace, Blanc, Gordon, & Scanlon, 2016; Batty & Marshall, 2009; Beauregard, 2015). The Tennessee Valley Authority during the Great Depression was yet another of the concept's early roots. Reino Ajo (1944) measured the intensity of the Tampere downtown's regional economic impact as it reached the fringes of a territory known since the 1940s as the Tampere traffic (catchment) area and today as Tampere Region. In the UK, the famous 1960's South-East Study traced the developmental dynamisms around the Greater London Region, and its Finnish cousin, *Uusimaa* (or, in English, Helsinki Region) 2010 from the year 1966 did the same at approximately the same time in what was to become, decades later, the Helsinki Metropolitan area.

Where MAL+PE is genuinely unique is that the traditional unitary state model of spatial planning based on planning legislation and division of labour between strictly defined planning authorities has been complemented by a new kind of trading zone. This consists of agreements among the

municipalities of those city regions most willing to go beyond the planning mechanisms stipulated in the 1999 Land Use and Building Act (132/1999) on the one hand and the key planning ministries of the national government on the other. The fact that these agreements differ from case to case, reflecting the particular conditions in the first four city regions which have completed them, introduces a certain “quasi-federal” element in the Finnish planning regime. A common denominator to all agreements, however, is the pursuit of sustainability in urban development. The institutional mechanism to set this goal comes from the National Land-use Guidelines. They are based on a government decision in 2000 with a second revision issued by the Ministry of the Environment in December 2017. These guidelines comprise the backbone for the entire system of strategic land-use planning from local to regional, to highway, power grid and other infrastructure and network planning. However, they intervene in the functions of regional administrations whose reform is now also underway. The future role for the guidelines is therefore somewhat contested.

## How Can Boundary Work Help in Breeding Smart and Sustainable Urbanism?

Sustainability is a notoriously ambiguous, even treacherous, concept. In an all-Nordic endeavour to chart challenges for the 21st century regional development, Janne Hukkinen (2000, p. 175) encapsulated this disposition to a catchy maxim “my sustainability is not your sustainability”. The general concept has remained prone to conflicting and opportunistic interpretations alike. In urban planning – bound to promote sustainable development – it has been eagerly elaborated into what has been discussed here as sustainability proxies. Given the lacking heuristics of what fundamentally is at stake with sustainability and smart urbanism, performance measurement and measurers of performance are necessarily able to produce only approximations of (smart) sustainability (cf. Keenan, 2014).

We have discussed sustainability proxies in the context of decision-making in city regions, but they occur in the construction and selection

of planning principles and goals such as transit-oriented development, walkable city, carbon footprint reduction, LEED standard, sprawl prevention, inward-bound growth, and finally, in the ubiquitous-sounding sustainable urbanism (e.g. Renne, 2009; Talen, 2011; Wells, Timmer & Carr, 2011; Speck, 2012; Duany, 2013). All of these are, one way or another, within the reach of smart urbanism. However, in its constitutionally strong municipal frame sustainability-promoting urban policy-making is easily confined by strong administrative barriers that open parallel, partly overlapping but not integrated or coordinated interpretations of local sustainable development. In its institutionally weak frame on the level of city regions, promotion of sustainability is necessarily confronted with tensions between legitimate ideals and limited means to turn these ideals into workable policy practices. Institutional weakness invokes thoughts of the loss of power in attempts to promote the desired goals. In some instances it may be an advantage if not an outright strength.

The institutional ambiguities of city regions do not necessitate the creation of the kind of watertight sectoral administrations whose existence in both national government bodies and municipalities is an empirical fact. This ambiguity should enable municipal actors involved in regional co-operation to unlearn if not entirely overcome the restricting boundaries and actively search for something Quick and Feldman (2011, p. 7) call *issue boundaries*. Central to this process is to identify issues, not silo-defined – let alone silo *defining* – as scope for the joint activities of actors. Boundary objects constructed this way may enable purposeful cooperation for promoting sustainability in land use planning. Moreover, promotion of sustainability may even benefit from a problem that traditionally has been conceived of stemming from planning as a peculiar but not entirely exceptional social practice.

Attributes that “should” make planning distinct (but fail to do so) are generic dispositions and central tendencies, not historically and culturally fixed qualities (Beauregard, 2015, p. 23; cf. Buckingham-Hatfield & Evans, 1996, pp. 7–8). These attributes are rightfully claimed by several professional groups including social workers, financial managers, and urban designers to be the uppermost topping to the urban pie. If planning smart, sustainable and at any rate advancing urbanity is indeed a generic joint venture rather than any professional group’s natural monopoly, the institutional ambiguity

of city regions only makes this trait stronger. Yet, this feature needs not to be an encumbrance. Going back to the ideas originally introduced by Warren Weaver (1948, p. 539), if this kind of setting calls for the use of mixed teams combining expertise from different fields, it makes an excellent case for organised, or even *organising*, complexity. In our example of planned sustainability, agglomerated problems are faced through a system of an organic whole – such as the metropolitan components of the global economy – with its concurrent parts in close and meaningful cooperation.

An example of the deliberate attempts to reconstruct existing administrative boundaries, using city regions as arenas to do so is the process of redefining the roles and responsibilities of municipalities in the face of government-led large-scale social and health reform now underway in Finland. Attached to a more generic process of creating regional self-government as a third tier of democratic governance, it would take one of the largest sectors from the municipalities, relocate it to the new regional administrations, and finance it solely from the state budget instead of part-financing it through municipal taxes. However, despite this restructuring, municipalities remain responsible for policies that promote their residents' well-being and health. With a removal of administrative sectors explicitly charged with these tasks, many of the remaining sectors need to redefine their roles in the new situation: finding out what other municipalities, linked together with several physical, social and economic structures do is of particular value. Boundaries of action need to be redefined.

The agility of municipal actors to manage this transposition was tested in the Tampere city region in 2017. The region's agency, operating in all MAL+PE "sectors", organised a joint planning meeting for its eight member municipalities' executive and senior civil servants in infrastructure and welfare services with the aim of carrying out this redefining process. The session started with an invited kick-off introduction to the day's theme, built environment as a resource in promoting health and well-being after the social and health reform, given by a member of our research team. The agency's officials in charge of land-use, infrastructure services and welfare served as secretaries of rotating working groups that began after the introduction.

The task for participants was an act of boundary work par excellence. The social and health reform, the key strategic target of the national

government, has been a great source of systemic ambiguity constituting a shared veil of ignorance between the present and the future. It allowed every participating expert to admit they were unaware of how the future would unfold without risking their legitimacy as otherwise well-informed specialists. Subsequent workshops and expert meetings organised by our research team as part of a broader entity analysing the future of MAL+PE integration has produced an identical result. In the face of major systemic ambiguity, experts seem to tune themselves to a learner's mode. Together with other experts they keenly gather and share information in order to collectively map an unknown terrain, instead of pressing an agenda trusted in their hands by their respective agencies to be pressed. This obviously is a productive mindset for boundary work.

Shared experiences and a need to produce them for collective problem-solving can also be seen as drivers for boundary work – even if it should be hard to objectify them in a more traditional setting of an object as an artefact (cf. Quick & Feldman, 2011, p. 18). In the working groups the land-use, infrastructure and welfare service executives started to connect the issues central to their respective sectors with each other and to the future linkage between health-promotion, the use of urban space, service networks, and their public finance implications. All are aspects of sustainability and all called for newly thought out cooperation at the city-regional level. Experiences from this exercise were used as catalyst for a subsequent series of workshops to identify common boundary spaces and objects among land use planners and business developers (or the M and E sectors) of the Tampere city region.

## Boundary Work as a Leadership Artefact

Pursuit and planning greater sustainability in the context of future Finnish city regions has multiple implications for leadership. The issue originates from the ongoing reform of regional administration and a mounting cognitive pressure caused by the increasingly complex character of sustainability, both against a backdrop of the planetary urbanisation. The broader administrative reform can be understood as an attempt to

alleviate imminent financial imbalances and social and health service delivery failures caused by the concentration of population to a handful of key urban areas. The direct result of this is the complexification of sustainability planning.

Large-scale systemic transformations may be traumatic to established organisations and those in charge of them. But they may also open major arenas for redefining and reconsidering positions, boundaries and division of labour. A great deal of the eventual success in this redefining depends on the readiness of the various actors, both public and private, to acknowledge the scales and scopes of change and to venture out in this exercise. Leadership can be shown through promoting the exchange of different views, opening arenas for the collective sensemaking of experts without the confines of their established institutional roles. Unfortunately, another way to show leadership is equally possible. Also denying the need for arenas for collective sensemaking and replacing them with pressing opinions that provide simple (and simplistic) solutions to the complex world can be understood as leadership of sorts. Both these ways can be seen as artefacts for bringing one or another kind of order to complexity, but only one of them is sustainable in the face of finding a form for unknown unknowns, or the ultimate uncertainties.

What we saw in the MAL+PE boundary work example was a crucial chain of events:

1. a significant rescaling reform of the national social and health care system was acknowledged as of having a transformative impact on the established MAL+PE boundaries of action;
2. boundaries that structure MAL+PE problem were redefined through emergent issues, and the planning problems were revisited and re-interpreted;
3. shared “unknown unknowns” were explored through a collaborative process, which reframed a fundamental systemic ambiguity as a window of opportunity to explore smart and sustainable future urban designs.

For this redefining process to be successful it is obvious that an open rather than constrained exchange of ideas is needed. Complexity should be organised rather than disorganised. Constructive and mutually productive use rather than purposeful misuse of concepts is needed. However, it is far from self-evident that administrations react that way to the complexities

they encounter. The decision of whether to resort to boundary work, to use it as an instrument for redefining and reorienting the basis of collective reasoning, is an issue of leadership – as is deliberate risk-taking, if the system does little to recognise where the changing world is taking it.

## Discussion

This article was inspired by the pursuit of sustainability in different urban settings and ideas of smart and sustainable urbanism. Sustainability was portrayed here as integrated policy and planning measures carried out in cities and city regions particularly with the help of the negotiated MAL+PE arrangement. We saw that even if the general goal of promoting sustainability can be compressed to generic planning guidelines, what the localities and city regions *de facto* demonstrate are various situational interpretations of the most locally relevant aspects of sustainability, promoted with the instruments (and locally devised instructions) available to urban planners (Karppi, Vakkuri & Immonen, 2017).

We have identified several implications relevant to the issues raised in this book. *First*, large-scale changes and transformations such as global warming, urbanisation or ageing have systemic repercussions that national institutions seek to confront and then transfer to local and regional actors, who turn policies into measures and outcomes. *Second*, these transformations may manifest themselves as ruptures that displace the established roles of local and regional actors and the very foundations of their division of labour. *Third*, the ruptures, changing roles and confusion in the face of complexities that transformation imposes on them should prompt organisations to reconsider the scope of their action and the rationality of having and maintaining current organisational boundaries.

Global systemic changes are forces which make transformations of a more limited scope necessary. This chapter has introduced boundary objects and boundary work as a theoretically interesting and empirically tested method for organisations and actors to make sense of their changing environment and what this change requires from them. It has discussed

how new decision-making spaces emerge and are identified as something calling for equally new forms of leadership.

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## CHAPTER 4

# Security Dynamics: Multilayered Security Governance in an Age of Complexity, Uncertainty, and Resilience

**TAPIO JUNTUNEN & SIRPA VIRTÄ**

## Takeaways for Leading Change

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Claims of increasing complexity and nonlinear change in contemporary societies and global politics are often presented as a justification for increasing demands of resilience as a key strategic response in security policy and practices. Our conceptual analysis juxtaposes resilience as a security mentality with other – partly overlapping – security mentalities such as defence, protection, and prevention. This provides a good case study of how perceived complexity of our societies affects the way in which governance and leadership are understood. The theory of nodal security governance resonates with the idea of relational leadership. Our analysis suggests the rise of resilience as a mentality might also indicate a certain lack or even crisis of leadership. The chapter invites readers to exercise a normative and ethical reflection on the practical effects of different security mentalities from the level of individuals to the level of global governance. It also gives readers a basic account of what security is, what it means to govern through security, and what the purpose of security is in relation to sovereignty, political order, and the freedoms and responsibilities of citizens.

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How should security be governed? What are the requirements for security leadership today? These questions are being voiced with increasing urgency as a variety of new threats to security emerge and are recognised. There is a growing awareness that the promotion of security as both an objective and subjective condition will require new ways of thinking and acting (Wood & Shearing, 2007). In the past decade, security studies in many disciplines, notably in international relations, political science, governance studies, and criminology, have addressed this challenge.

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The purpose of this chapter is to analyse resilience politics as an example of a novel security mentality.

The governance of security is based on policies and strategies which involve responding to threats or breaches of security that have already occurred. It also involves anticipating and seeking to prevent threats that might occur. The analysis of security governance explores ways of thinking (mentalities) underlying these strategies, the organisational forms used to implement those ways of thinking (institutions such as the police, military, and international organisations), the techniques used to turn mentalities into action

(technologies, policies, and strategies), and the resulting actions (practices).

In this chapter, we use the nodal theory of networked and multilayered security governance (Johnston & Shearing, 2003) as the framework through which we analyse responses to the changing security environment and increasing complexity of threats and risks. The perspective of multilayered security governance focuses on the dynamics, contemporary policies, and practices of security. It also provides perspectives on the societal implications of different ways of understanding security governance.

The purpose of this chapter is to analyse resilience politics as an example of a novel security mentality by comparing it with some of the more traditional security mentalities such as defence, protection and prevention. We argue the strong impact of resilience politics as a novel security mentality in recent years is evident in the various efforts to rearrange institutions, technologies, and practices of security governance.

As to the question of social complexity, we argue the growing influence of resilience approaches in relation to security policy and governance

offers an illustrative example of how responses to the interconnectedness of modern societies and perceptions of increasing uncertainty also have effects on how the changing demands of leadership are understood. Using the nodal theory of security governance, this chapter also asks what implications – institutional, practical, and technological – resilience strategies and the supposedly increasing vulnerability of our societies pose to security leadership.

The chapter is structured as follows: we begin by elaborating on what security is and its relationship to key concepts such as sovereignty, order, freedom, and political legitimacy. From there we analyse how the emergence of resilience politics as a novel security mentality has transformed the agenda of security governance, including dominant threat perceptions and agency in providing security. We also illustrate how the emergence of resilience politics has affected the way security and the technologies of its governance have been transformed in the last decade in the context of the Nordic model of internal security and critical infrastructure politics as well as in the European Union Global Strategy (EUGS). We then present a concluding discussion.

## What is Security?

In political science, security is defined as the core function of the state. The most familiar definition can be found in Thomas Hobbes's *Leviathan*; Hobbes (1651/1999, p. 123) argued that without the state, society would descend into a war of all against all (i.e. a state of nature). It was in order to avoid this that men came together to make a social contract, building a state to provide security. Therefore, the state has been given the power over people and territory. This exceptional power derives from the definition of the state: "A state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory" (Weber, 1946/1991, p. 78. Emphasis in original). To sustain their external security, states have military forces and intelligence authorities. To sustain internal security (political, social, and public order), states have police forces and criminal justice systems.

Security is commonly defined as a state of being. This is illustrated in the following definition, published in the *SAGE Dictionary of Criminology*, which is free of discipline-based connotations:

Security is the state of being secure, specifically freedom from fear, danger, risk, care, poverty or anxiety. Security also implies certainty. The roots of the term are in the Latin *securitas*/secures, derived from *se* (meaning without) *cura* (fear, anxiety, pains, worry). Safety is closely related to security. Safety also means freedom from danger or risk. However, it has additional connotations which have more to do with physical conditions, e.g. freedom from injury, the safety of the body and of property. In this context certainty refers to certainty of order, assurance and predictability (Virta, 2006, p. 371; Virta, 2013b, p. 312).

When defined as the core function of the state and, according to the Universal Declaration of Human Rights (1948), as a core human right, security is a powerful political concept and phenomenon. In this reading, the sovereign (state) has the power or position to define the governance, political use, content, objectives, distribution, etc. of security. Fundamental questions of democracy are ambiguous in this context. Governance of security – as a concept – refers to organisations, strategies, and practices. Governance through security is always a political act. There is an irrevocable link between security and the maintenance of sovereignty. The question of who has the power or legitimacy to make claims on matters of (national) security is fundamentally a political one. When a specific phenomenon is authoritatively labelled a security issue – that is, a threat to the existing social order – it is more easily perceived as an issue to be dealt with using exceptional measures. The normal running of politics and governance does not typically rely on such exceptional measures (Huysmans, 2004). What we have presented here is a constructivist perspective of security, which starts from the premise that threats perceived by the state elite or the society in general are not just “out there” in the objective reality to be “picked up”. Instead, political leadership and other authorities are involved in processes of signification that construct and give meaning to these threats. This also affects perceptions of what security is and what it means for the polity in the first place (see also Vuori, 2017).

The vast political capital vested in the term “security” means that any policy pursued in its name is difficult to argue with: How could anyone reasonably be opposed to security (Zedner, 2009, p. 144)? Although contemporary security leadership necessitates an understanding of the complexity of different societal threats and risks, one should not forget that claims for security are essentially contested. In other words, although security is a rather common concept, its use is not clearly definable. It can refer to various objects, processes, and societal contexts depending on one’s perspective and values (Buzan, 1983, p. 6; see also Gallie, 1956, p. 168).

Security can be seen as a fundamentally “wicked problem”, as a “particularly complex and tricky leadership and management context” (see the introductory chapter of this book). This also means that security cannot be “solved” for good, either in existential terms – meaning that there is no absolute state of security available in human life – or in the sense that different stakeholders would achieve a consensus over the value, meaning, and practical efficacy of different security mentalities.

## Governing Security Through Resilience

In recent years, scholars in various academic fields have noted that resilience politics is challenging traditional ways of thinking about the governance of security, such as the mentalities of defence, protection, and prevention (Chandler, 2017; Corry, 2014; Virta, 2013a). We argue a security mentality based on resilience is emerging and transforming the ways in which governance and governability are perceived. Instead of focusing on the governance and prevention of foreseeable uncertainties and threats, resilience politics is presented as an answer to the assumed inability of our societies and governments to guarantee security with preventive and proactive policies. This is thought to happen because of the increasingly complex and interconnected nature of our societies and new threats emanating from both man-made and natural sources (Rosa, Renn, & McCright, 2014).

As a concept, resilience has a distinctive academic background in life sciences such as systems ecology as well as psychology and complexity thinking dating back to the 1950s (see Bourbeau, 2018). From these

academic fields, resilience thinking has, over the last two decades, slowly transformed into a concept with policy relevance for many societies and international organisations. In contemporary security politics, resilience is used as a strategic principle or objective of various policy fields and issues such as planet politics and climate change, governance of increasing urbanisation, counterterrorism, criminology, and social work.

Resilience politics also has its critics. Scholars have paid attention to the “dark side of resilience” (Schmidt, 2015); this refers to the tendency to prioritise reactive preparedness instead of increasing security through prevention, anticipation, and foresight. They have warned about the unintended negative consequences of the increasing responsabilisation of vulnerable communities and local actors as the subjects of their own fate and security. Resilience politics has also been associated with the process of neoliberalisation and austerity politics; trends that can also be challenges to security governance and leadership models (Joseph, 2013).

Finally, critics of resilience politics have also noted some resilience approaches seem to treat crises almost as desirable experiences local groups can use as valuable lessons to (re)build cohesion and the adaptive capacities of their communities (Tierney, 2015). These observations on the dark side of resilience offer students of leadership and management a good example of how current trends in strategic thinking can also be approached with critical and ethical deliberation.

## Contesting Traditional Security Mentalities

Resilience is usually defined as the latent ability of systems, individuals, communities, and organisations to (i) withstand the effects of major disruptions, (ii) maintain one’s ability to act amid a crisis, and (iii) bounce back from a crisis and use the experience to increase one’s adaptability in the future (see Brand & Jax, 2007). As a novel security mentality – as a set of ideas that makes claims about how security is valued and achieved (Wood & Shearing, 2007, p. 7)—resilience challenges some of the traditional state-centric security mentalities such as those of defence, protection, and prevention. In the security mentality based on the primacy of defence, the

focus of governance is on safeguarding the territorial integrity and continuity of key societal functions of the nation state (external security). In the case of protection and prevention, the focus of governance is either on social, economic, and political substructures. These correlate with the level of human development or on providing internal security and order through punitive actions, policing and other deterring technologies and practices.

When examined through the logic of defence, the main security threats are usually perceived to be posed by other state actors or other relatively organised collective entities or polities. In the logic of protection, the main threats are perceived to stem from structural distortions such as poverty, inequality, and other cultural practices that cause structural violence. Finally, in the logic of prevention, security policy focuses more on the general welfare of society and its orderliness. Predominant threats are usually perceived to stem from organised illegal activities or specific societal distortions that endanger domestic order and the sense of security, such as the process of political radicalisation.

The security mentality based on resilience, by contrast, emphasises the radical openness and uncertain nature of the threat environment in an age of increasing complexity (Juntunen & Hyvönen, 2014). Thus, the primary objective of resilience politics is not to enhance the robustness of critical infrastructures (e.g. energy networks), nor does resilience politics rely purely on physical technologies of coercion (e.g. military or police forces). Instead, it emphasises the need to increase the mental and physical adaptability of individuals, communities, the private sector, and civil society to face unpredictable, even inevitable threats. Resilience politics aims to enhance the functionality of society. That is, to maintain the core purposes of societies during crises due to the tight coupling of societal functions with the increasing complexity and vulnerability of modern physical infrastructure (Pursiainen, 2018, p. 633).

The main differences between the logics of defence, protection, prevention, and resilience in light of security governance are illustrated in Table 1. These logics are further elaborated through five dimensions: who or what the referent object of security governance is, what kinds of threat perceptions the logic relies on, who the primary security actors (providers of security) are, how the agenda of security policy is

formulated, and how the role of security policy is understood in relation to the normal running of politics.

	REFERENT OBJECT OF SECURITY GOVERNANCE	DOMINANT THREAT PERCEPTIONS	KEY SECURITY AGENTS	SECURITY POLICY AGENDA (STATED OR IMPLICIT)	RELATIONSHIP BETWEEN POLITICS AND SECURITY
DEFENCE	Territorial integrity of the state and borders; critical infrastructure and continuity of state functions	Fear and uncertainty caused by other states or otherwise highly organised political actors; conflicts between state actors	Defence forces and other key actors protecting territorial integrity and the continuity of key state functions and internal order	The intentions of (rational state) actors can be influenced through the practices of external deterrence, alliance politics, power projection, costly signalling, etc.	Security issues tend to be separated from other societal processes and normal political order; security as the realm of exceptional; enemy images might prevail
PROTECTION	Vulnerable individuals, groups, and communities	Political, economic, and social structures that cause inequality and suffering; global warming, resource scarcity, and deprivation; intrastate ethnic conflicts	Local governments (responsibility to protect); international and nongovernmental actors providing humanitarian assistance and interventions	Explicit ambition to remove the structural sources of insecurity and free the suffering from harm	Security issues are comprehensively “nested” in the socioeconomic structures of the society and culture; state-driven security concerns are often politicised
PREVENTION	Political, social, and public order and the welfare of society	Organised crime and violent extremism; illegal immigration and human trafficking; terrorism and radicalisation; crime, violence, and disturbances of public order in general	Law enforcement actors such as police, emergency service, and other state actors; also, increasingly, social security actors, private companies, and communities	Inclusive “pacification” of the society through a mixture of welfare policies and crime prevention, including counterterrorism, visible policing, and law enforcement	Political legitimacy and authority of the security providers is central, but otherwise, the relationship between security and politics is ambiguous and contested
RESILIENCE	Processes maintaining the cohesion and everyday functioning of society	Unpredictable nonlinear threats such as environmental hazards and other various “wicked problems”; blurring of external and internal spheres of security	Civil society, local communities, private sector, and eventually also individual citizens; government governing “from a distance”	To strengthen individuals’ and societies’ autonomic capacities for adaptation, recovery, and reform	Unclear: reduces the need to rely on articulated threats and enemy images typical of the logic of defence, but increases securitisation of the societal fabric

TABLE 1: Four logics or mentalities of security policy (see Hyvönen & Juntunen, 2016; Virta, 2013a)

The assumed technological and societal complexity of the so-called “risk society” indicates challenging times for traditional top-down models of security governance, leadership, and management, both within and between sovereign entities. Evans and Reid (2014) even suggest security governance based on resilience is an invitation to learn to live life more dangerously – not safely. The responsibility to provide or increase resilience seems to diffuse to an increasing number of actors or nodes. The role of civil society, private actors, and grassroots movements is on the rise. That said, some scholars claim this has led to the responsabilisation of individuals and communities without a true transition of power or resources to participate in the strategic processes that define the concrete practices and goals of security governance (Gladfelter, 2018; Stark & Taylor, 2014; Tierney, 2015). Others emphasise that governance approaches based on resilience have the potential to reverse the old top-down leadership processes and give citizens and communities more agency over their own political and social conditions. Howell (2015, p. 69) aptly sums up this idea:

As a technique of governance, resilience works primarily through an attempt to enhance its targets: a more ambitious aim than responsabilisation. This, I suspect, is true wherever resilience involves a concept of not just “bouncing back” (from disasters, attacks, crises, etc.), but of “bouncing forward”.

This type of understanding conceives of resilience as a strategy to increase the capability of individuals and communities to act in an increasingly autonomous and independent manner without the need to rely excessively on state authorities. This resonates with the idea that security is actualised in various societal nodes, including “organic” nodes of leadership at the grassroots level. This line of thinking acknowledges that the traditional leadership and governance models based on a linear understanding of how events unfold are not sufficient by themselves. The understanding of leadership as a relational concept is also important in light of the actualisation of different resilience strategies.

To sum up, there seems to be rather wide agreement among security scholars that there is no single definition or target of application for resilience politics. They tend to speak about resilience in the plural to

avoid the risk of equating concrete governance practices and strategies performed under the label of resilience to a priori academic definitions of what resilience generally means as a security mentality (see Bourbeau & Ryan, 2017; Dunn Cavelti, Kaufman, & Kristensen, 2015). We suggest the abovementioned distinction of resilience from other security mentalities helps one grasp what resilience is by revealing what it is not, although we acknowledge the security mentalities we suggest above are also partly overlapping ideal types.

Different understandings of resilience as a security mentality have expanded the array of security agents and actors in recent years. This is a challenge to traditional understandings of sovereignty. There seems to be a shift in security governance towards relational leadership models, also discussed in this book. While in the traditional understanding, sovereignty is very much territorialised – even personalised – there is now an increasing focus on guidance, influencing, and other “responsibilising” techniques over traditional models of authority-based control. This provokes the question: Who are the ultimate agents responsible for providing security through resilience? The nodal theory of security provides one fruitful way to approach this.

## From State to Nodal Security Governance

A growing school of thought in security studies and criminology centred on the concept of nodal governance also challenges traditional state-centred concepts of security governance (Johnston & Shearing, 2003). Security governance is also delivered in the corporate sector, nongovernment organisations, and transnational actors, among others. The recent shift from traditional state-centric security logics (such as territorial defence and maintenance of internal order through policing) towards conceptions emphasising societal resilience has given actorness to local communities, local activism and agile ad hoc coalitions of different organisations from different sectors of the society. As dominant threat perceptions increasingly highlight the significance of global interconnectedness and complex emergent processes, the responsibility for providing security

is scattered from and by the state authorities towards the subjects of insecurity (Methmann & Oels, 2015).

In the nodal governance of security, the state is recognised as only one node among a network of nodes participating in the delivery of security. There is an increasing focus on individual and community level adaptive capacities through different resilience strategies. However, this does not necessarily mean the power of the state or other traditional operators of security politics has diminished. Instead, the various new nodes of security governance are defined as locations of knowledge, capacity, and resources that can be deployed to both authorise and provide governance (Button, 2008, p. 15). In the EU, for example, the most significant nodes in internal and external security governance are the networks of member state representatives (e.g. security intelligence authorities and task forces of police commissioners) as well as the common European institutions (e.g. Europol and Eurojust in The Hague).

The Scandinavian or Nordic model of societal security, encompassing Finland, Denmark, Sweden, Norway, Iceland, and the Faroe Islands, has been characterised by many as consensual, social democratic and welfare-oriented, nonpunitive (a low imprisonment rate), and inclusive (Virta, 2013a). The model covers criminal policy, penal policy, and crime prevention policies. The European model, on the other hand, has its roots in the establishment of the area of freedom, security, and justice in the European Council meeting in Tampere in 1999 (European Council, 1999). Multiannual EU programmes (after Tampere, The Hague Programme 2004, and the Stockholm Programme 2009), together with other European internal security and policing strategies and common policies in home and justice affairs, have established a European internal security field.

This has led to a policy convergence in member states. The European Commission has been an important actor in promoting the harmonisation of crime prevention measures, law enforcement practices, and urban safety policies, as well as in creating a performance regime for monitoring the development in member states (Virta, 2013a). The European model is focused more on internal security, on preventing global common threats (notably terrorism, organised crime, social exclusion, and illegal immigration) and on local-level practices.

Community policing and local-level cooperation is seen as a vital tool for preventing violent radicalisation. Common measures and practices have been adopted and implemented locally. What was earlier seen as a question of national security has now been localised and is also a part of the policy field of urban security.

There are also differences between the general EU and Nordic models. One example can be found from the approaches to critical infrastructure protection. In the Nordic countries, the role of what is today labelled the comprehensive societal resilience approach has traditionally been considered important, as has been the focus on the protection of physical infrastructure and increasing its redundancy. The EU, on the other hand, has traditionally focused on physical infrastructure and only recently started to map security technologies that would merge the protection-centred approach with increasing demands for a more comprehensive societal resilience approach (Pursiainen, 2018, pp. 633–635).

One of the recent key documents based on the security mentality of resilience in the context of the EU's external relations is the 2016 EUGS entitled "Shared Vision, Common Action: A Stronger Europe". Although originally formulated in the context of the EU's humanitarian and development policy programmes established in the Sahel and eastern regions of Africa in the early 2010s, in the EUGS, resilience appears as a strategic concept – that is, a security mentality. Resilience is mentioned some 40 times in the EUGS. Human security, the concept in vogue when the EU's last foreign and security policy strategy was drafted in the early 2000s, is only mentioned four times – a clear verbal indication of a paradigm change from protection to resilience. In the EUGS, resilience is defined as the ability of states and societies to reform amid an increasingly complex and unpredictable threat environment (European External Action Service, 2016, p. 23).

Many scholars and key EU officials have noted the central role of resilience in the EUGS is also communicative (Mälksoo, 2016; Tucci, 2016). In other words, it has been applied to the strategy as a reactive conceptual compromise to mitigate the fact the EU lacks effective control over the societal development and security situation in its "near abroad". The 1990s and early 2000s promise of the EU as a progressive and pacifying

liberal project that would also allow good governance practices to trickle into the societies in its near abroad has not yet materialised. Instead, hot crises, interlinked extra- and intrastate wars as well as the fundamental lack of human security in the Middle East, Africa, and Eastern Europe painfully testify to the crisis of the EU as a liberal project, not to mention the EU's internal challenges and disintegrating propensities. In this light, resilience has been invented as a boundary concept or communication device uniting those who still believe in the optimistic liberal project and its soft power effects with those who favour a more isolationist approach and emphasise the role of power politics and strict control of the EU's external borders (Cross, 2016).

The EU seems to be more sceptical of its own leadership abilities and readiness to govern the complex threat environment with top-down models now than it was two decades ago. Following the security mentality based on resilience and the dispersion of security agency as the nodal theory of security governance presented above suggests the EU's approach to reinforce the strengths and resources of local agents, communities, and civil society is the starting point of a decentralised and agile mode of security governance.

On the other hand, it is good to acknowledge that societal security strategies and internal security strategies usually have citizen participation and deliberation as their strategic objectives. They are considered integral elements of systemic comprehensive security, where collaborative, complex, adaptive networks are seen as new forums of citizen engagement. To give a recent example from Finland, deliberative models have been introduced into the areas of societal security and resilience. Citizen engagement and participation has been enhanced through novel practices such as citizen sourcing and citizen juries (Virta & Branders, 2016, p. 1151).

## Discussion

In contemporary security parlance, resilience refers to the ability of societies, communities and even individuals to withstand major disruptions or shocks and to maintain one's functioning – even learning

to be stronger – after adversity. As a strategic concept directing security policy, resilience is a sweeping response to perceptions of increasing complexity posed by the combination of various nonlinear threats and the vulnerability of our postmodern societies and lifestyles.

The rise of resilience politics does not come without possible ethical problems. Some scholars have even claimed the rise of resilience as a dominant security mentality might lead towards a culture of insecurity where policies are guided with the goal of taming the most harmful consequences of insecurity instead of comprehensively providing safety from harm (see Evans & Reid, 2014; Joseph, 2013; Methmann & Oels, 2015). Using the nodal theory of security governance, we have also illustrated the possible implications that the shift from security mentalities such as protection, prevention, and defence to that of resilience poses to the techniques of security governance, agency, and leadership in general. The rise of resilience politics seems to follow the general lines of nodal theory in that the security political actorness continues to disperse among different levels of societal actors. At the same time, the increasing demands of security indicate traditional state-centric security actors are facing severe challenges in terms of security leadership.

The rise of resilience politics and its practical implications indicate a certain lack of leadership and controllability. On the face of it, traditional security authority tends towards multilayered nodes and actors, all the way to communities and individuals. This might lead to positive enhancement of several societal actors in terms of security actorness. But the increasing reliance on resilience also has a dark side. What seems especially daunting is the critique that resilience strategies naturalise complexity-induced insecurity as a permanent state and normalise crises as potentially positive learning experiences enabling one to become stronger and more anti-fragile (see Schmidt, 2015). In some instances, the increasing demand for resilience might decrease incentives for traditional state actors to transform social structures with reforms and preventive policies. It is also appropriate to ask whether resilience approaches rely on a relatively managerial and reactive conception of political subjectivity activated only after the harm has already occurred. As a security mentality, resilience seems to be rather passive in the face

of complex threats stemming from outside and within one's society (Bourbeau, 2015, pp. 174–177; Juntunen & Hyvönen, 2014).

Finally, in terms of security leadership and management in practice, within the complex contemporary world of old, new, and emerging threats and risks, the terms “security risk management” and “security risk governance” best describe the strategic and operative functions of various networked actors and nodes in doing and delivering security – global networks, states, authorities, civil society assemblages, and people themselves (see Button, 2008). A systemic approach to security entails complex and adaptive security systems and subsystems. The value of the complexity theory derives from its characteristics: interdisciplinary, nondeterministic, systemic, contextual or circumstantial, and chaotic; or at least not entirely predictable and developmental (Pycroft & Bartollas, 2014). Security leadership requires systems intelligence. This means understanding the interconnectedness and interdependency of various phenomena, understanding what complexity is and means, and understanding the contingent, ambiguous, and political nature of security – or rather, securities (Virta & Branders, 2016).

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## CHAPTER 5

# Supporting Longer Working Careers in Organisations: Challenges and Complexities

HANNA SALMINEN

## Takeaways for Leading Change

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Population ageing is a global phenomenon and a current megatrend with political, governmental and economic consequences worldwide. Although population aging brings challenges, it can also provide new opportunities. Relational leadership stresses the importance of collective leadership and bottom-up processes along with top-down ones. This chapter highlights empirically organisational practices which support longer working careers. However, this requires trust and open dialog between employees and supervisors as well as enabling organisational structures. The main argument put forward is that organisations which are able to utilise the potential of longer working careers and a more age-diverse workforce, are likely to flourish in the long run.

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The purpose of this chapter is to focus on human resource management (HRM) challenges and complexities related to the retention of an ageing workforce, thereby supporting longer working careers in organisations. The ageing of the population is a megatrend currently affecting societies and organisations worldwide. Increased longevity and decreased fertility are the primary reasons for the ageing of the population (Uhlenberg, 2013). A number of European countries and Japan have experienced birth rates below the replacement rate since the 1960s. The United States has experienced such a rate since the 1980s (Mahon & Millar, 2014). Although developed countries have been the forerunners in terms of population ageing, other countries will follow the same path. According to a United Nations (UN) report (2017), the number of individuals over age 60 has doubled since 1980 and is currently nearly one billion worldwide. This number that is expected to double by 2050 (The United Nations, 2017).

Population ageing is an example of a wicked problem that brings changes for societies, organisations and individuals (Hertel & Zacher, 2018). Vivid terms, including “grey dawn and tsunami” (Mahon & Millar, 2014, p. 553, 560)

have been used to describe the consequences of population ageing. At the societal level, population ageing affects a variety of sectors, including labour markets, services, housing, transportation and inter-generational ties (The United Nations, 2017). It also changes the dependency ratio and is expected to influence national competitiveness. Changing demographics and their influences are particularly notable in the healthcare field due to the increasing use of healthcare services by a society’s oldest citizens (Mahon & Millar, 2014). There is continuing pressure in this field to slow the increase of healthcare costs without jeopardising the quality of healthcare services (Buchan, O’May, & Dussault, 2013). At the moment of writing, the Finnish public healthcare and social sectors are currently undergoing an

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enormous reform, known as SOTE, aimed at restraining costs and securing equal healthcare services for all citizens.

Due to population ageing, several society-level actions have been taken, including legislation concerning age discrimination. In recent years, various retirement reforms have been enacted in many countries with the aim of postponing the retirement age to decrease pension costs and dependency ratios (Mahon & Millar, 2014; Hertel & Zacher, 2018). In 2017, Finland enacted a new retirement reform aimed at lengthening working careers. Such increases in the official retirement age have increased the rate of participation of older individuals in the labour market in recent years (Sonnet, Olsen, & Manfredi, 2014). In Finland, for example, older employees are currently considering working after retirement more often than they did before (Tenhunen, 2017). However, there are significant differences between nations in terms of the working activity of older individuals. For instance, in Sweden, 70% of those over age 55 are working, but in Italy, only 38% of those in that age group are actively participating in working life (Mahon & Millar, 2014).

Along with society-level initiatives and reforms, the need for organisational-level actions, including HRM practices and policies, that support longer working careers has been stressed (Sonnet, Olsen, & Manfredi, 2014). From the organisational perspective, the increasing average age of the workforce means that organisations must efficiently use the knowledge and skills of their older employees and find ways to engage and retain their employees of all ages (Ng & Feldman, 2015). Yet, organisations vary greatly in how they have responded to the challenges related to the ageing workforce and the degree to which they have promoted longer working careers (Wallin, 2014).

In recent years, the retention of older employees has been studied in different fields, including gerontology, psychology, sociology, political science and management. A variety of theoretical conceptualisations of late career and retirement have been presented (Wang & Shultz, 2010). This chapter pays particular attention to HRM practices as potential factors influencing the retention of older employees in organisations. In line with relational leadership, which emphasises the collective leadership and bottom-up processes, this chapter also focuses on the active role of older

employees in terms of managing their late career and how they perceive HRM practices provided by the organisation.

The empirical analysis is based on qualitative research examining the late-career intentions and expectations of older nursing professionals. Interview data were collected among 22 older (50+) nursing professionals in one Finnish university hospital in December 2016. The public-healthcare field provides an interesting context in which to examine the challenges related to the retention of older employees, because the field currently faces pressures to respond to the increasing need for healthcare services in a cost-efficient way while enduring a shortage of nursing professionals.

The chapter is structured as follows: The theoretical section focuses on how retention of older employees has been approached in recent HRM studies. The empirical section sheds light on the challenges and complexities of retaining longer working careers in healthcare context. It focuses on the perceptions of older (50+) nursing professionals towards their work and HRM practices. Finally, the chapter provides concluding remarks and implications for the LFC approach.

## Retaining Older Employees in Organisations: the HRM Perspective

When it comes to defining “older employees”, there is no clear consensus, and the literature contains various categorisations for such employees (see, for example, Ng & Feldman, 2015, p. 66). Herein, an older employee is defined as one 50 years old or older, because at this point, there is a declining trend in labour-market participation (Brough, Johnson, Drummond, & Timms, 2011; Organisation for Economic Co-operation and Development [OECD], 2006). Although ageing is universal, the changes related to ageing differ between individuals. These changes do not only concern biological and physiological changes, but also psychological and social ones. How old age and ageing are perceived and experienced varies societally and individually (Kooij, de Lange, Jansen, & Dijkers, 2008; Hertel & Zacher, 2018; Whittington & Kunkel 2013; Uhlenberg, 2013).

In the field of HRM, a growing number of studies have focused on the challenges and complexities related to retaining older employees (Hertel & Zacher, 2018). For instance, organisation-level HRM studies have focused on identifying so-called age-inclusive HRM practices (Hertel & Zacher, 2018; De Vos & van der Heijden, 2017). In general, these practices aim to support the needs and preferences of older employees as well as those in other age groups in the organisations. As Mahon and Millar (2014, p. 563) noted, “thoughtful ageing policies must deal with the entire spectrum of ageing and levels in the organisational hierarchy.” These HRM practices include, for example, non-discriminatory recruitment, selection, performance and rewarding as well as training and development practices (Hertel & Zacher, 2018). In addition, flexible work practices relating, for example, to the possibilities to combine work and family responsibilities have also been highlighted. In practice, flexibility can mean an individual’s ability to influence one’s own working hours or working methods (Bal & De Lange, 2015). The theoretical background for these studies is based frequently on the social exchange theory and the psychological contract perspective. In other words, HRM practices are seen as a way to maintain and strengthen the reciprocal relationship and mutual trust between employees and their organisation (Armstrong-Stassen, Freeman, Cameron, & Rajacic, 2015).

So-called age management studies have also identified HRM practices as important to support longer working careers and abolishing obstacles, such as ageist practices in organisations (Ilmarinen, 2006; Wallin, 2014). For example, in some cases, older individuals may encounter career plateaus in organisations or challenges related to job changes and re-employment opportunities if they are unemployed (Sonnet, Olsen, & Manfredi, 2014). The theoretical background for these age management studies often relies on studies of work ability. As a concept, work ability illustrates the balance between an employee’s resources and his/her job demands (Ilmarinen, 2006). While the work abilities of individuals tends to decline with age, the variation among individuals is great (Ilmarinen, 2006). Furthermore, both the individual employee and the organisation can promote work ability (Ilmarinen, 2006; Hertel & Zacher, 2018).

In line with the work ability approach, recent HRM studies have stressed the importance of *continuous person-environment fit* to maintain workability

as well as to support successful ageing in the work context (Kooij, 2015, p. 334). Individual-level HRM studies have also highlighted the importance of examining how older employees perceive HRM practices as well as their own active role in managing late career (Tempest & Coupland, 2016; Kooij, 2015). Attention has been paid, for example, to the changing life goals of older employees, the use of various strategies to compensate for changes related to aging and the significance of both of these to late-career choices (Bal & De Lange, 2015). In other words, older employees are no longer seen merely as the passive objects of HRM practices and policies. Instead, they are considered actors which can take part in the process of creating an atmosphere and HRM practices that are more age-friendly (Hertel & Zacher, 2018; Kooij, 2015).

Supporting longer working careers in organisations can be considered as a complex problem given that the late-career choices of older employees are influenced by a number of factors that may or may not be related to work. For example, there is evidence that the retirement plans of female employees are often more strongly influenced by marital status, education and income than those of male employees (Riekhoff & Järnefelt, 2017). Besides the diversity of older working populations, there are also differences between industry sectors and organisations in terms of willingness and readiness to support longer working careers (Wallin, 2014). All the aforementioned makes it difficult to identify “best HRM practices” for retaining older employees and supporting longer working careers.

## Older Nursing Professionals’ Perceptions Towards Work and HRM Practices

This section focuses on the challenges related to retention of older nursing professionals in a public health care field. An individual-level perspective is used to demonstrate how older nursing professionals perceive their work and HRM practices in the context of retention. This empirical example is based on a qualitative study conducted in a Finnish university hospital. In all, 22 older nursing professionals were interviewed in December 2016. The

nursing professionals interviewed worked in four different locations and represented several wards. All the interviewees had long working tenures at the hospital. The oldest was 64 years old. Five interviewees were male, and the rest were female.

The participants were asked to describe and reflect on their career trajectories, current jobs and future prospects at work. This chapter focuses on the perceptions among nursing professionals of the types of organisational practices that would support their abilities to continue working until retirement. Accordingly, the following themes were identified from the empirical data: the content of the work, support for workability, learning and development, flexibility and supervisory support. These themes are discussed in more detail below.

The positive aspects of work played a central role in late-career intentions, including motivation and willingness to continue working. In general, work was perceived as meaningful and providing a sense of purpose and a feeling of satisfaction. In addition, social relationships with patients and colleagues were seen as positive aspects of the job. The workload and the fast pace were perceived as negative factors.

...interaction with people, in other words, work with patients is the best. And seeing people recovering... N10

Well, this is a good workplace and good, big, competent work community, which has all kinds of human capital...and functional relationships with everyone, it is an asset. In addition, this job is mainly meaningful and kind of empowering, but the workload is big from time to time, and the amount of patients is enormous... and some of the people (employees) are at the edge of their endurance. N14

Psychiatric nursing professionals specifically highlighted mentally challenging work situations, whereas other nursing professionals stressed the physically demanding nature of their work on their late-career choices. In particular, changes in physical capabilities constrained their late-career choices. However, they also stressed their own active roles in ensuring their own work ability and in compensating for changes in their physical abilities.

I hope I will be able to continue (working) until retirement age, but this (deteriorating health) tells me I am ageing. N13

It also greatly depends on yourself, how you manage and develop along with your job, and how you take care of your own fitness. N21

...well, I have always said, that what I lose physically, I win in intelligence. I can organise my daily job in a way that I will not run all over the place and rush... N7

Continuous learning and development were closely related to discussions of the meaningfulness of the work and late career. The learning and development opportunities provided by the organisation were seen as playing an important role in horizontal career advancement, which prevented feelings of career plateauing. Continuous learning and development and the competencies gained at work were also closely related to the perceptions of their own work ability. However, continuous learning was also seen as demanding and tiresome when it was unclear how it related to individual professional development.

... I have always received new (career) changes (in this organisation) and a new start, and possibilities to learn new things. N4

Well, personally, I feel all kinds of projects are a lot on top of all the others. ...and then all the IT programmes are updated. That is quite frustrating N5

Professional competence also related to the discussion of individual roles in the work community. First, competence was perceived as reinforcing feelings of assertiveness and self-worth in the work community. Second, professional competence was perceived as contributing widely to the work community. Some emphasised their roles as mentors to new employees. They also tended to worry about the integration of these new employees and how they would adapt to their work community.

It helps to cope with the job if you feel that you are a respected person in the work community and you have something to give. N10

The turnover among personnel is high, so one big challenge at the moment is how to properly take care of the integration (of new employees) into this work community... N14

While they emphasised their own active role in maintaining workability, the active involvement was also expected from the organisation and supervisors. However, it was not always clear how the employer promotes the balance between individual resources and job demands.

For instance, in this house [hospital], I feel they [managers] have not figured out what they are doing with us, older nurses. I haven't seen...any development programme or project regarding what will happen to us, given that our exhaustion is physical in nature. N2

When it was asked about specific HRM practices and policies that would promote the older nursing professionals' abilities to continue working, those practices were related mainly to flexibility in working hours, including the reduction of shift work. Some stressed their own active role in reducing their workloads by, for example, refusing to do extra work. But, most of them expected the organisation to implement flexible practices. In addition, moving from shift work to day work was not seen as problem-free, given that it decreased their monthly salaries and thereby their future retirement allowances.

It happens a lot, when it is a rush situation and it is difficult to get employees... that (they) call during days off to go back to work. So, I have refused to be reached (by phone), I had to...when I went through that exhaustion. After that, I learned to listen to myself. There is no use of me being here at work if I have not rested and charged my batteries. N8

Well, when I think about what would promote my abilities to continuing working, flexibility, concerning, for example, work shifts, influences it... N3

... part of them (older nursing professionals) want to continue working in shifts due to the extra wages...I don't do night shifts any more, rarely weekends. It does

affect my wages...I first dropped off from night shifts and then from weekend shifts...taxation, of course, compensates for it, but the employer does not...But obviously, if you think that I will have been off of night shifts for ten years before I retire. Seven years off of weekend shifts. It really does matter. N2

In addition to flexible work practices, managerial support in general was seen as important to retaining older employees in the organisation. Great value was placed on the supervisory support. In particular, the mutual trust and respect between employee and supervisor was seen as a prerequisite to being able to discuss and negotiate possible challenges related to work ability as well as changes needed in the work.

The supervisor must see how an individual's resources match with the job... we have a good supervisor...she supports a lot and retains us, that helps (to cope with the job). N19

...I feel that as an employee, I have the responsibility to inform (my supervisor) when I am not able to manage my work...it is a kind of negotiation issue... N17

Well, of course it is important that the supervisor has the knowledge and understanding regarding the content of your work. And then, of course, that those supervisors have trust in (us)...Maybe it is because of the trust that I have been able to make development initiatives rather freely. N12

The content of the work, work ability, continuous learning, flexibility and supervisory support were most significant aspects related to retention among the studied older nursing professionals. Yet, some of these aspects also included challenges and contradictions. While the deteriorating workability was seen to influence the ability to continue working in a psychically (and mentally) demanding job, the work itself also motivated and provided a sense of meaning. In addition, although continuous learning was seen as a key component of being able to carry on through late career, it was also perceived as somewhat burdensome. Similarly, while flexibility in work schedules was seen to ease the workload, it was not always seen as a financially optimal solution.

## Discussion

This chapter focused on the challenges and complexities related to the retention of older employees in organisations, with special reference to HRM. While longer life expectancy is the result of many improvements in our society, including improved healthcare, nutrition and safety, the ageing population and workforce presents a complex challenge to societies, organisations and individuals (Hertel & Zacher, 2018). In addition to society-level initiatives and reforms, including pension reform, there is a need for organisation-level actions to support longer working careers and the active ageing of employees (Mahon & Millar, 2014). Finding ways to retain older employees in organisations is also crucial to addressing expected labour shortages and minimising costs related to early retirement (Wang & Shultz, 2010).

Due to societal, industrial, organisational and individual differences, no single “fit-for-all” solution can be found for supporting longer working careers. This chapter discussed some of the contemporary theoretical viewpoints concerning retention of older employees in the field of HRM and provided an empirical example of the challenges and complexities related to retaining older nursing professionals in the field of public healthcare.

Despite diverse theoretical backgrounds, recent HRM studies concerning the retention of older employees, have emphasised the importance of fit between the abilities of employees and their work demands (Hertel & Zacher, 2018) as well as the active role of both employees and the organisation in order to support longer working careers (Kooij, 2015; Wallin, 2014). The empirical example presented in this chapter showed that the fit between an individual’s resources and job demands was closely related to the feelings of workability among older nursing professionals. Competence was identified as an important component of perceived workability. Thereby, continuous learning and development throughout working life, one way or another, is important for the retention of older employees (Ilmarinen, 2006; Hertel & Zacher, 2018). Opportunities to develop competencies was closely related to the discussion of horizontal career progress (Tempest & Coupland, 2016). It was also seen as way to contribute to the larger work community.

Older nursing professionals prioritised flexible working practices as a way to enable working until retirement age and even beyond (cf. Hennekam & Herrback, 2015). This supports the argument that flexible HRM practices are important for balancing demands in work and non-work domains (Bal & De Lange, 2015). However, changes in work schedules were also perceived as problematic, because they reduced wages. When it comes to the employee-supervisor relationship, trust and support from one's supervisor were seen as significant factors in providing an environment in which older employees could actively discuss and negotiate development initiatives needed to support longer working careers. This lends credence to the importance of collective and relational leadership (Uhl-Bien, 2006). The continuous fit between individual abilities and work demands requires age-inclusive HRM practices, but also the active role of supervisors and older employees themselves (Kooij, 2015).

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## CHAPTER 6

# International Taxation and the Complex Case of Digitalisation

**MARTTI NIEMINEN**

## Takeaways for Leading Change

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When there is a change so fundamental as digitalisation, no part of society is left unaffected. The transition from the brick and mortar economy to the digital economy has dramatically transformed the setting of international business taxation and basic principles of the international tax system have become outdated. This chapter demonstrates how digitalisation and the transformation of the global economy affect international taxation and discusses how to restore the integrity of the international tax system. It also argues that managing complex and systemic changes requires understanding a multiplicity of fields and leadership beyond institutional boundaries. This kind of leadership is now more necessary than ever due to the increased complexity of the global economy and divergent interests of key players.

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This chapter demonstrates how digitalisation and the subsequent transformation of the global economy affects international taxation and discusses how to restore the integrity of the international tax system.

The Leadership for Change (LFC) approach is comprised of three core elements: a complex world, relational leadership and dynamic change. Complexity is the feature of the approach that best describes the phenomenon discussed in this chapter – the effects of digitalisation on the international tax system. The international tax system is a multidimensional structure which combines various fields of society and discipline: law, business, politics and economics. The ongoing transformation of the international tax system is also a prime example of a change process where leadership is far from clear. The challenges caused by digitalisation for international tax regulation cannot be resolved by any single actor but require wide-ranging solutions and cooperation. At the same time, the transformation of the international tax system in the digital age is neither linear nor easily predictable.

From the perspective of international taxation, the key feature of the global megatrend of digitalisation is that economic activity no longer requires a physical presence. This aspect of the information and communication technology (ICT) driven modern economy erodes the fundamental concepts of international tax law that determine which country has the jurisdiction to tax cross-border business income. The result has been the widespread phenomenon of international double non-taxation of multinational enterprises. This is a pressing global concern in terms of financing public expenses, competition neutrality, incentives for economic activity and fairness.

This chapter demonstrates how digitalisation and the subsequent transformation of the global economy affects international taxation and discusses how to restore the integrity of the international tax system.

We begin by looking back to the early 1900s, when another transition in technology and the economy led to a fundamental re-evaluation of the basic principles of international taxation.

## Key Principles of International Business Taxation

In early 1900s industrialisation, powered by revolutionary technological innovations such as the internal combustion engine, modern power grid and the assembly line, was well underway. More and more capital, including an increasing number of labour, was invested in industrial manufacturing. The structure of society was beginning to change from agrarian to industrial. Consumer products and industrial goods were now beginning to be mass-produced. It became necessary, and increasingly possible due to the advances in transportation and communication technologies, for manufacturers to look abroad for new opportunities for growth.

One of the potential major obstacles for the emerging expansion of cross-border trade was the awkward and outdated construction of the international tax system. Each country had its own rules on who and what to tax. This often resulted in overlapping and simultaneous taxing claims of two or more states (Gadžo, 2018, p. 203–209). The basic setting was as follows:

The taxing claim of State A was based on its understanding that the whole existence and operations of Company X were ultimately made possible by the public goods (physical and legal infrastructure, educated and healthy workforce, etc.) provided by State A. State B based its taxing claim on a somewhat similar idea that the money used for buying the products from Company X was generated by the resources provided by State B. Or, it may be that both states simply needed the tax revenue. From a legal perspective, there is little difference why a state looks to tax certain income. Under international law states have full discretion to decide what they want to tax as long as there is a reasonable connection between the state and the income or between the state and the income recipient (Gadžo, 2018; Martha, 1989).

This problem of *international double taxation* desperately needed to be resolved to facilitate the expansion of international trade. The difficulty was that no state was unilaterally willing to give up its taxing claim in favour of other states. International co-operation was required. The body to take up the task was the League of Nations – the predecessor to the United Nations. Its Economic and Financial Commission on 5 April 1923 released a pioneering report on double taxation. The report laid down the

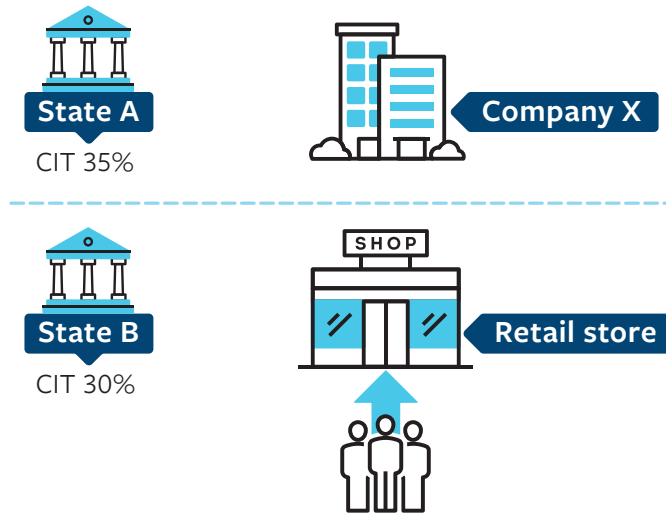


FIGURE 1. Company X made leather bags (hand bags and suitcases). State A was the “home” state of the company where it was founded, registered, managed and where the manufacturing of its products took place. Company X also owned the trademark that distinguished its products from other similar products. State B was the “target” state where the company looked to expand to sell its products to local consumers. Company X had in State B a retail store where it displayed and sold the leather bags made in State A. The problem for Company X was that the income it received from selling leather bags in State B was taxable both in State A and State B under the domestic tax law rules of these states. In other words, the company was taxed twice. In state B it would have paid a 30 percent corporate income tax (CIT) and in State A 35 percent CIT. Of its net profit the company would therefore have paid a total of 65 percent income taxes. This would hardly encourage Company X to expand internationally.

basic structure of the international income tax system as it exists today, almost a century later (League of Nations, 1923; Devereux & Vella, 2014; Whittaker, 2016; De Melo Rigoni, 2017).

In the report, the two basic principles for cross-border business taxation were established: *the residence state principle and the source state principle*. These principles mean that both the so-called residence state (State A in the above example) and the so-called source state (State B in the above example) have, as a rule, the right to tax income generated by cross-border business operations. The residence state has *worldwide or unlimited tax*

*jurisdiction*, meaning it may tax any income regardless of where it originates. The source state has a *territorial* or *limited tax jurisdiction* under which it may tax business income received from its territory.

However, the source state can tax cross-border business income only when the foreign company has a so-called *permanent establishment* (PE) in its territory and to the extent the income is generated by the operations of that permanent establishment. What is important to understand about this legal concept is that, in general, there cannot be a permanent establishment without some level of physical presence; for example, a factory, store, office or warehouse. Grasping this feature of the permanent establishment concept is essential in understanding the current challenges of the international tax system.

From the perspective of the residence state's taxing powers the importance of the existence of a permanent establishment is not, in principle, as significant as it is for the source state. The residence state has under its worldwide tax jurisdiction the right to tax cross-border income anyway. However, in practice, whether there is a permanent establishment or not in the source state is also important for the residence state. If there is a permanent establishment the residence state is usually able to tax only "what is left" after the taxation in the state of source due to its obligation to credit the taxes paid in the source state (credit method). Alternatively, the residence state may be obligated to exempt foreign sourced income altogether (exemption method).

Following the principles set in the 1923 League of Nations report, in our example scenario the taxing rights between State A and State B are allocated as follows:

By allocating the taxing rights of business profits between the source state and the residence state, overlapping taxing claims of the two states were effectively avoided, international double taxation was eliminated and the most important tax-related obstacle for international trade was removed. In the following decades, more and more states adopted the principles laid down by the League of Nations report by concluding bilateral tax treaties with other states. These tax treaties were based on the Model Tax Convention of the Organisation for European Economic Co-operation (OEEC) that later became the Organisation for Economic

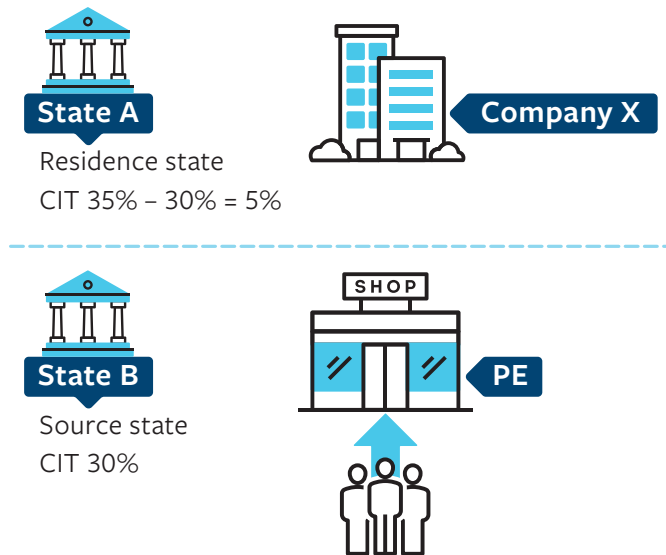


FIGURE 2. Because Company X has physical presence (retail store) in State B, there is a permanent establishment of company X in State B. Accordingly, State B has the jurisdiction to tax the business profits of Company X to the extent they are connected to that permanent establishment. State A as the residence state also has the right to tax the business income Company X receives from State B. However, State A is obligated to credit the taxes paid in State B. This effectively means State A can only tax 5 percent of the income received by Company X from State B. Of its net profit Company X would therefore have to pay a total of 35 percent income taxes. This is much more encouraging for Company X compared to the 65 percent described in Figure 1.

Co-operation and Development (OECD). By the 1950s the OECD had a leading role in managing the development of the international tax system (OECD, 1963).

In summary, the international business tax system worked reasonably well through the twentieth century because the expansion of business to other states usually required some kind of physical presence. This ensured the taxing rights of the source state through the concept of permanent establishment. At the same time the key functions and the worldwide tax liability remained in the company's residence state. Cross-border business income was taxable either in the source state or in the residence

state or in both states, in which case tax treaties ensured international double taxation was effectively eliminated.

## Digitalisation Eroding the Taxable Base

In recent years, the term digital economy has emerged in the language of international taxation. The digital economy is an overarching concept referring to the entire modern economic system. It describes a wide range of activities, from buying a train ticket online to the worldwide operations of a multinational technology company (OECD, 2015). From the perspective of international taxation, the main feature of the digital economy is that economic activity no longer requires physical presence, the phenomenon of “scale without mass” (OECD, 2018a). This is important because without physical presence no permanent establishment is created in the source state. This means the source state has no taxing right over the business income received by a non-resident company. Figure 3 illustrates the effect of digitalisation.

This example demonstrates how the fundamental concept of international business taxation, the permanent establishment, and by extension the entire source state principle, is compromised in the digital world. The absence of taxable presence in the source state has become an all-encompassing issue as more and more goods and services can be delivered to customers (consumers or other businesses) in other states without a physical presence. Source states in many cases no longer have the jurisdiction to tax outbound business income. This is problematic in two ways.

First, and most obviously, the source state loses tax revenue. For example, when a Finnish company buys advertising services from Google, the payments for those services go untaxed in Finland. From the Finnish perspective tax revenue “leaks” abroad. This, of course, is a concern for the financing of public expenses in Finland.

Second, not having to pay taxes in the source state easily results in not being taxed at all. The phenomenon referred to as *international double non-taxation* refers to a case where a multinational corporation is not taxed for its profits by any state or is taxed with a very low effective tax rate.

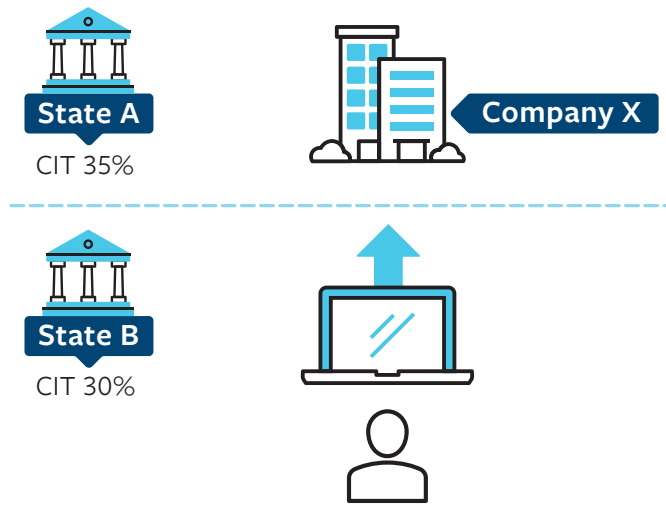


FIGURE 3. In this case Company X sells leather bags to customers in State B just like it did in the previous examples. The only difference is that Company X no longer has physical presence (retail store) and, thus, no permanent establishment in State B. Instead, consumers residing in State B can purchase the products of Company X through a website maintained by Company X in State A. Company X pays taxes, namely a 35 percent corporate income tax, only in its residence state (State A).

This occurs because the residence state principle is also being eroded as will be discussed below.

The main problem with international double non-taxation is that it distorts competition neutrality between global and local or “big” and “small” businesses. If the effective tax rate is 20 percent for one company and 1 percent for another, it is clear their chances of success are far from equal. The fact that multinational enterprises are in many cases subject to zero or close to zero taxation also creates pressure for states to compensate tax revenue losses by tax increases in other areas, particularly payroll taxes and value added tax. This reduces incentives for economic activity in general. There is also the issue of fairness. If one company does not pay its fair share others will have to pay more (Burgers & Valderrama, 2017; Lamberts, 2017).

International double non-taxation does not occur simply through the lack of taxable presence in the source state. It also requires income to go untaxed in the residence state. For a growing number of multinational companies this has become reality. Technological developments not only erode the source principle but are also compromising the functioning of the residence principle. Due to the abundant possibilities provided by modern ICT and logistics, key functions of a multinational enterprise can be allocated to any jurisdiction depending, among other things, on tax considerations. For example, the central management (board meetings), advertising, financing, manufacturing and research and development operations can, and typically are, situated in different jurisdictions. Most importantly, the possession of intangibles, such as, trademarks or brands, copyrights, patents, knowhow and goodwill can be allocated almost anywhere.

The location of intangibles has become essential. Their importance in the global value chain has significantly increased due to the expanded scope of digital services (OECD, 2013). Manufacturing goods is now easier and cheaper thanks to, among other things, the technological process of *automation* (production without human assistance). Automation is evolving fast and goes hand in hand with digitalisation. Indeed, technological innovations such as 3D printing may make manufacturing of everyday goods so simple that literally anyone can do it. This means the real value is less where the manufacturing takes place and more where the intangibles are located. And this brings us back to tax considerations.

In the previous examples, Company X, resident in State A, owned the trademark that distinguished its products from similar products of other manufacturers. The example below demonstrates what happens from a tax perspective if the ownership of a trademark is transferred from Company X to another group company, Company XX, which is located in a low tax jurisdiction.

As demonstrated above, the issue of international double non-taxation is not something concerning only modern ICT companies. It is also relevant in the case of more traditional businesses that sell, under a global brand, tangible goods (e.g. furniture or clothes) or services (e.g. coffee shops and fast food restaurants). It is also worth pointing out there are various other *tax planning* techniques besides the one described above that may result

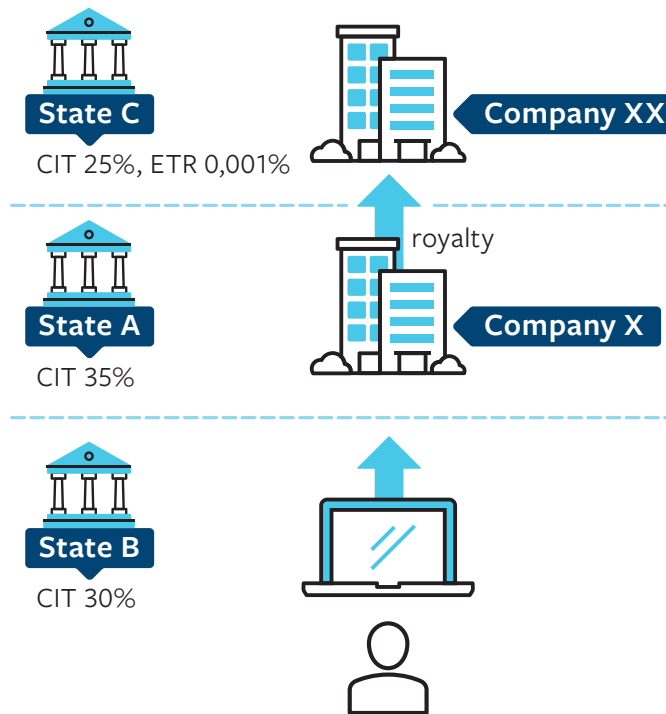


FIGURE 4. Company X still sells leather bags to consumers in State B via its web store just like it did in Figure 3. However, the ownership of the trademark or brand of X group is now transferred to another group company, Company XX, located in State C. The general corporate income tax rate in State C is 25 percent. But due to a special regime that is applied to income from intangible property the effective tax rate (ETR) for Company XX is only 0,001 percent. 95 percent of the profits made by Company X in State A is offset by tax deductible intragroup royalty payments to Company XX. Of the profits it made from selling leather bags to consumers in State B, the X group (Companies X and XX) now has to pay a combined taxes of little over 1,75 percent.

in international double non-taxation. They may be based either on other types of intragroup payments besides royalties (e.g. interest payments or service fees) or technical mismatches or “loopholes” in international tax legislation (e.g. so-called hybrid arrangements). The important point is that the phenomenon of international double non-taxation is relevant in any area of the economy where international corporations operate. The

potential magnitude of the issue is highlighted by the fact that more than 80 percent of all worldwide trade takes place within the global value chains of multinational enterprises (United Nations, 2013).

## Discussion

There are various ways to confront current issues in the international tax system and to restore the integrity of the international tax system. There are short term solutions or “quick fixes”, such as a particular digital tax outside the scope of the existing tax treaty rules limiting the tax jurisdiction of the source state. There are also medium term solutions such as the introduction of a “digital permanent establishment” not based on physical presence, but other indicators such as use of bandwidth or collection of user data (see e.g. Brauner & Pistone, 2017). A more far-reaching option would be to discard the source and residence principles altogether and base tax jurisdiction on other factors; for example, the location of consumers (Devereux & de la Feria, 2012). The greatest challenge is not the designing of a tax system suitable for the digital age. The real issue is how to deliberate on and implement the required modifications.

As noted above, a century ago the world was facing a somewhat similar situation, where technological innovations had changed the structure of the global economy and the new reality had become fundamentally incompatible with the prevailing international tax system. It was also discussed how individual countries were not in the position to effectively confront these challenges. This was ultimately achieved through international cooperation. But what is the case today? Can there be sufficient international consensus on the international tax system in the digital era?

International bodies with the capacity to implement all-encompassing solutions to the prevailing challenges of the international tax system are the United Nations and the OECD. Both organisations have a long history of issuing supranational tax law regulation. However, the purpose of the United Nations in the field of international taxation has diminished over time to a more observatory role. The main emphasis has been on safeguarding the interests of the developing world. For this reason, the

OECD and the associated G20 forum is, in practice, the only international operator able to provide worldwide solutions in the field of taxation.

The OECD has in recent years successfully introduced instruments within its Base Erosion and Profit Shifting (BEPS) project to mitigate international double non-taxation (OECD, 2018b). However, there is

one issue yet to be resolved that makes the situation today somewhat more challenging compared to the time when the elimination of international double taxation was in everyone's interest. The problem is that even within the OECD countries, that is the developed western economies, there are persistent conflicts of interest. Some countries, for example the Benelux countries and Ireland, may not see international double non-taxation as such a pressing concern as do Australia, Germany, France and the Nordic countries. Also, and most importantly, there are the fundamentally different positions of the European Union countries and the United States on how and whether the source state taxation of digital businesses should be modified. The European Union

The European Union is looking for ways to tax the US-based technology giants, such as Google, Apple, Microsoft and Facebook.

is looking for ways to tax the United States -based technology giants, such as Google, Apple, Microsoft and Facebook. The United States, understandably, sees the situation differently.

Reaching global solutions is, not only in this case but also generally, difficult and time-consuming. New players and levels of decision-making have emerged in the field of international taxation which take a regional instead of a global perspective. The EU Commission, for example, has stated that if the OECD cannot provide an effective and timely solution to the erosion of the source state principle, the European Union will proceed with its own solutions (European Commission, 2017; European Commission 2018a; European Commission 2018b). However, if the process concerning the Common Consolidated Corporate Tax Base initiative (European Commission, 2018c) is any indication, even reaching a common understanding in the EU may be difficult to achieve. The CCCTB approach would not be based on classic concepts of source and residence but on

a so-called formulary apportionment method where states' jurisdiction to tax would depend on the location of three equally-weighted factors: assets, labour and sales. This would represent an innovative and up-to-date approach to international taxation. It would however result in a loss of tax revenue in individual countries – at least in the short term.

As the OECD and European Union have so far been unable to resolve the source tax issue, countries have begun to take unilateral actions. For example, India has recently introduced a plan for a new digital tax that would make multinational digital entities operating in the country liable for taxes. Similar considerations have taken place also in the United Kingdom and Italy (Agarwal, 2018; UK Government, 2015; Reuters, 2017). Although relatively simple to implement, the problem with such unilateral solutions is that they make the particular country less attractive for foreign investments compared to competitor countries (Olbert & Spengel 2017). They may also be in violation of existing tax treaties and trade treaty law. This may erode the political capital of states in relation to countries which suffer tax revenue losses and whose companies are affected or would prefer a coordinated solution.

Besides political and legal measures, there is also another possible approach to address the current issues of international taxation. That is the so-called corporate social responsibility approach (CSR), whereby companies, either of their own volition or due to pressure from non-governmental organisations, traditional and social media, the general public and consumers, modify their behaviour to better meet the requirements of good corporate citizenship, including paying their taxes (European Commission, 2011). However, so far there is very little evidence of any real effects of the CSR approach to the most pressing global tax concerns.

## Acknowledgements

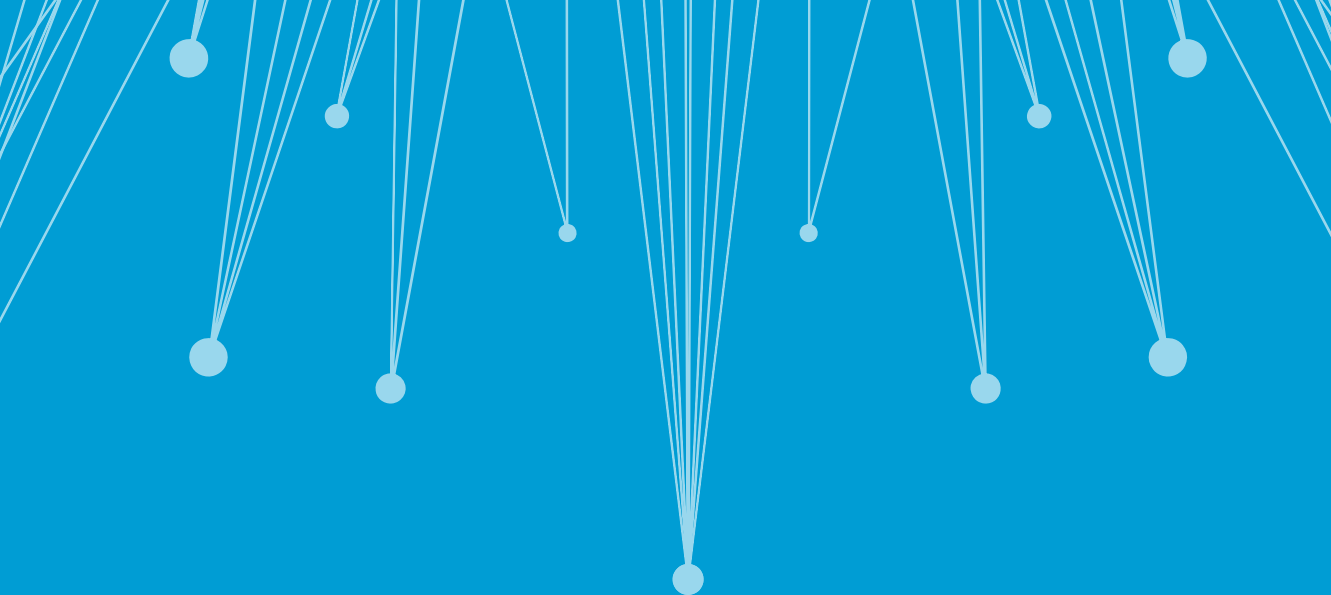
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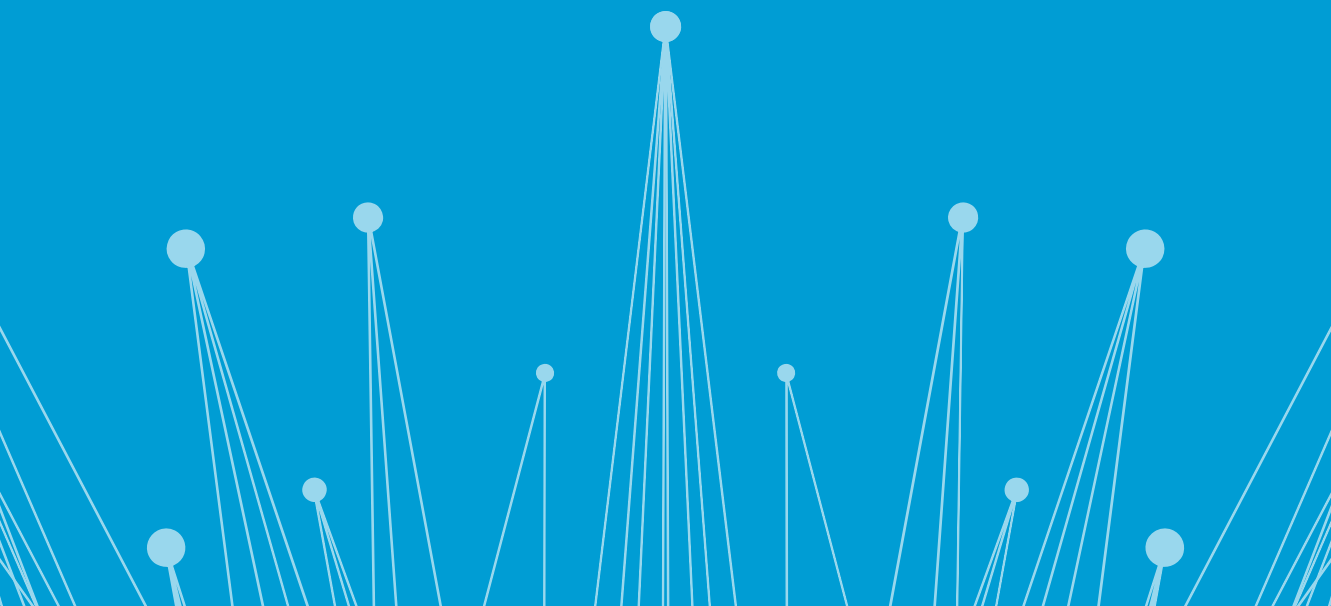
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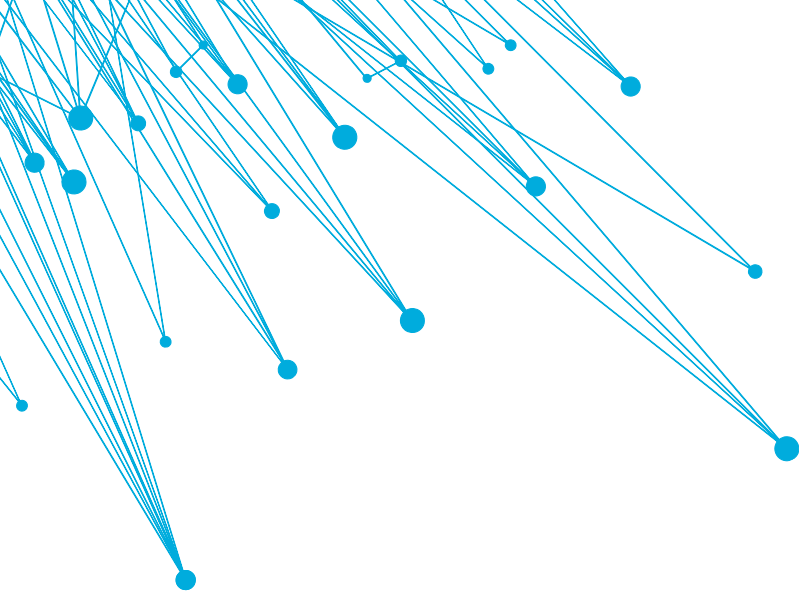
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PART II

# Relational Leadership





# Relational Leadership

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In an increasingly complex world, the traditional leader-centric visions of leadership are not sufficient. The Leadership for Change approach highlights the leadership roles of a variety of actors and the relationality of leadership. However, in many cases, power is not equally distributed and leadership remains personalised, institutionalised, or hierarchic. For this reason, the LFC framework suggests examining leadership on a spectrum from leader-centric to more pluralist and relational types of leadership. The chapter by Johanna Kujala, Hanna Lehtimäki and R. Edward Freeman offers an alternative view to the leader-centric understanding of leadership through the stakeholder approach, which highlights the needs and expectations of a plurality of stakeholders. Similarly, Mika Yrjölä, Hannu Kuusela, Elina Närvänen, Timo Rintamäki and Hannu Saarijärvi propose customer value as a relational framework for leading change. In Paula Rossi's chapter, the embedded conflicts and tensions of complex, chaotic, and everyday interactions within an organisation offer a way to examine leadership not only as a relational but also reflexive practice. A relational understanding of leadership also underpins Tomi Rajala's analysis of the role of performance measures in leading and managing change in complex, polycentric settings. In such settings, evaluation, analysed here by Pasi-Heikki Rannisto and Anna Saloranta, offers a practical leadership and management tool enabling specifying the objectives. The chapters by Tapio Raunio and Janne Ruohonen highlight the continuing importance of more leader-centric or entity-based examples of leadership. Tapio Raunio examines semi-presidentialism as a regime type where conflicts within the executive branch can be damaging for the coherence of leadership and policy-making. The chapter by Janne Ruohonen discusses the leadership of company directors through the case of business judgement rules, which is a legal mechanism ensuring that company directors are not liable for damages if they make decisions based on adequate and appropriate processes and information.



## CHAPTER 7

# A Stakeholder Approach to Value Creation and Leadership

JOHANNA KUJALA, HANNA LEHTIMÄKI & R. EDWARD FREEMAN

## Takeaways for Leading Change

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This chapter builds on the notion that in contemporary societies, leaders need to pay attention to a broad array of stakeholders and understand how value is created in stakeholder relationships. Stakeholder research considers how firms can create value simultaneously for multiple stakeholders (Freeman, Harrison, & Wicks, 2007), and how value is created in stakeholder relationships (Myllykangas, Kujala, & Lehtimäki, 2010). The key message in this chapter is that organisations and their leaders need to understand value-creating stakeholder relationships. The chapter proposes the SVC model with an emphasis on joint interests, the ability to collaborate, and trust in stakeholder relationships. For those working in leadership positions, the SVC model provides a tool for considering value creation with and for a wide-ranging variety of stakeholders.

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This chapter argues that those working in leadership positions must understand that value is created in relationships with a broad variety of stakeholders. Beyond increasing the value of investment made by owners, business organisations must fulfil the needs and expectations of various stakeholders, such as employees and customers, suppliers and distributors, investors and local communities. Public organisations need to address and engage a variety of stakeholders including citizens, non-profit organisations and local authorities, to accomplish their mission. In this chapter, we introduce the stakeholder approach and describe what kinds of tools it proposes for understanding value creation.

The traditional view of value creation examines how companies create value by using resources to make products to be sold in the market. In the value creating chain, actors are subcontractors, vendors, employees,

and sales agencies, to mention a few. The input of each actor continuously adds value to the product until it reaches the customer. (Porter, 1985.) This view of value creation sees companies as production machines between inputs from suppliers, investors and employees, and outputs to customers (Donaldson, 1995). The chief executive officer (CEO) acts as an agent of the owners who have invested their money in the business and expect returns on their investment. In other words, the owners hire the CEO to act as their agent in the company whose primary objective is to produce the maximum return on the money invested in the company. This view is also called the neo-classical view of the firm where

Those working in leadership positions must understand that value is created in relationships with a broad variety of stakeholders.

the purpose is in maximising firm value rather than optimising collective value (cf. Bosse, Phillips, & Harrison, 2009; Donaldson & Walsh, 2015).

The traditional view can be criticised along several lines. First, it may lead to serious malpractices resulting from individual benefit-seeking and short term profit maximisation by the owners and CEO. This comes at the cost of long term profitability. Corporate scandals such as the cases of Enron or Siemens illustrate this problem. In the Enron case, financial reporting and disclosures covered problems of corporate governance and

leadership. Profit margins and the share price was manipulated from the late 1990s into the early 2000s. As a result, 4,500 employees lost their jobs, investors lost USD 60 billion, and trust in the American economic system was eroded. In the Siemens case, hundreds of employees gave bribes amounting up to EUR 1.3 billion to business partners and government officials between 1999 and 2006. The practice resulted in the dismissal of numerous top managers in the company, the payment of EUR 500 million in back-taxes, EUR 1 billion in investigation costs and repairing the damage to the company's reputation in the eyes of the public (Global Ethic, 2009).

Second, the traditional view allows and even encourages the exploitation of natural resources. For example, air pollution and waste are considered the unwanted but inevitable outcomes of economic activity. However, with growing scientific consensus on the effects of global warming, running a business to the detriment of the natural environment has become increasingly unacceptable in the eyes of the public. A recent Finnish example, the Terrafame mine case, illustrates this tension. While the company brought jobs and economic well-being to a remote and economically depressed region in North-Eastern Finland, it was nevertheless criticised for the damages its mining activities caused to the local environment.

Third, the traditional view does not sufficiently take into account the needs and expectations of various stakeholders in society. It justifies the focus on profit maximisation without paying attention to societal outcomes. We argue stakeholders such as employees, citizens as well as local and national authorities have a legitimate right to expect and claim socially acceptable and beneficial behaviour from organisations and their leaders.

The stakeholder approach is an alternative to the traditional profit maximisation view. According to Freeman (1984; 2010), stakeholders are groups and individuals that can affect or can be affected by an organisation. For private organisations, the argument is that business is not only about increasing the value of the investment made by owners, but about fulfilling the needs and expectations of various stakeholders. The theory argues that the reason for a firm's existence can and should be found in value-creating stakeholder relationships (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010; Näsi, 1995a). Companies bring together employees and customers,

suppliers and distributors, investors and communities with the purpose of creating new jobs, products and services needed and desired by various stakeholders. Value not only accrues to owners and investors, but to all stakeholders (Garcia-Castro & Aguilera, 2015). The collective value created reflects the value created in all stakeholder relationships (Bosse et al., 2009). For public organisations, organisational objectives are connected to stakeholders through joint activities. In this way, public organisations fulfil their mission and create value for all involved parties (Heikkinen, Kujala, & Inha, 2018).

Interestingly, the origin and evolution of the stakeholder concept can be traced to Scandinavian management literature dating back to the 1960's; the basic concepts and ideas of stakeholder thinking were developed by Swedish researcher Eric Rhenman (Rhenman, 1964; Rhenman & Stymne, 1965; see also Strand & Freeman, 2015). In the 1970s, the "stakeholder approach enjoyed an almost dominant role in the Finnish university management teaching" (Näsi, 1995b, p. 98). Among the promoters of stakeholder thinking was Finnish professor Juha Näsi. He was influential not only in international theory development from the 1970s to the 2000s, but also in advancing stakeholder thinking in the strategic management of Finnish companies.

Since R. Edward Freeman's seminal work in 1984, the stakeholder approach has gradually increased its importance in organisational studies worldwide. Over the years, the stakeholder approach has been established as an important approach in conceptualising the relationship between business and society. The approach has been used to examine multiple phenomena in various fields such as strategic management (e.g., Haksever, Chaganti, & Cook, 2004; Harrison, Bosse, & Phillips, 2010; Sachs & Rühli, 2011), corporate responsibility (e.g., Sachs & Maurer, 2009; Smith & Rönnegard, 2016; Strand et al., 2015), business ethics (e.g., Phillips, 1997; Purnell & Freeman, 2012; Wicks, 1996), international business (e.g., Lehtimäki & Kujala, 2017), and non-profit organisations (Heikkinen et al., 2018).

At first, stakeholder scholars were primarily interested in identifying the most important stakeholders and their interests; in other words stakes, in business (e.g., Clarkson, 1995; Mitchell, Agle, & Wood, 1997). More recently, the focus has shifted toward examining interaction between diverse stakeholders (Neville & Menguc, 2006), understanding

stakeholder dialogue (Burchell & Cook, 2006; van Huijstee & Glasbergen, 2008), and learning from multi-stakeholder networks (Roloff, 2008). The interest lies in stakeholder interaction and the nature of stakeholder relationships (Evan & Freeman, 1988; Mitchell et al., 1997; Rowley, 1997). Advocates promote the idea that the interests of different parties in stakeholder organisations should be incorporated into the process of value creation (Freeman et al., 2010). Value, in this sense, is created not only for stakeholders but also with stakeholders (Freeman et al., 2010).

The key argument in stakeholder theory that, in the long run, an organisation must operate in such a way that each stakeholder is satisfied with what they give and with what they receive, i.e. stakeholder interests must be balanced over time (Freeman et al., 2007; Näsi, 1995a). In business organisation, the stakeholder approach argues it is necessary to broaden organisational goals beyond profit maximisation and include the interests and claims of non-stockholding groups (Mitchell et al., 1997). One of the main arguments is that the development and maintenance of favourable and productive stakeholder relationships are essential in creating value (Post, Preston, & Sachs, 2002; Svendsen, Boutlier, Abbott, & Wheeler, 2002). Seeking to serve the interests of a broad array of stakeholders will create more value over time (Freeman, 1984; Harrison et al., 2010). As society changes, the stakeholder approach can help organisations and their leaders in determining what issues to address in order to facilitate the creation of new innovations and value (Harrison & Wicks, 2013).

In this chapter, we present two approaches to understanding stakeholder interests and firm-stakeholder relationships. First, we introduce the Responsiveness Approach in stakeholder management. It proposes that organisations operate in a stakeholder environment and proposes ways in which organisations can pit responding to stakeholder needs and interests at the core of its strategic operations. Second, we introduce the Stakeholder Value Creation (SVC) model in stakeholder management. This model

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views organisations and their stakeholders as interdependent. The SVC model highlights the importance of understanding how organisations pursue joint interests. We will conclude with a discussion on these two approaches and their impact on understanding how companies and other organisations operate.

## The Responsiveness Approach

The key argument in the responsiveness approach is that organisations decide their societal engagement based on stakeholder needs and demands (Frederick, 1978; Wood, 1991). The strategic outcome is that organisations which respond to stakeholder needs and interests are better off in the marketplace and can gain a competitive advantage over organisations which do not pay attention to the views and expectations of their stakeholders. Since the early days of stakeholder theorising, the discussion has focused on the question of who stakeholders are, identifying their stakes and understanding the nature of stakeholder driven organisations. The responsiveness approach seeks to identify the most important stakeholders, analyse the interests and needs of these stakeholders, and measure responses to stakeholder expectations. Measures for analysing the connection between social responsibility and social performance have also been developed (e.g., Berman, Wicks, Kotha, & Jones, 1999; Kobeissi & Damanpour, 2009; Orlitzky, Schmidt, & Rynes, 2003).

Mitchell et al. (1997) made an important contribution to the stakeholder theory by defining the principle of who and what really counts in stakeholder management. They identified three attributes that serve as a basis for stakeholder salience: power of the stakeholder, urgency of the demand made by the stakeholder, and the legitimacy of the stakeholder demand. Their theoretical framework, the salience model, is one of the best-known models for the responsiveness approach (Figure 1).

In the salience model, power refers to “a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done”. Legitimacy, in turn, is defined as “a generalized perception or assumption that the actions of an entity are

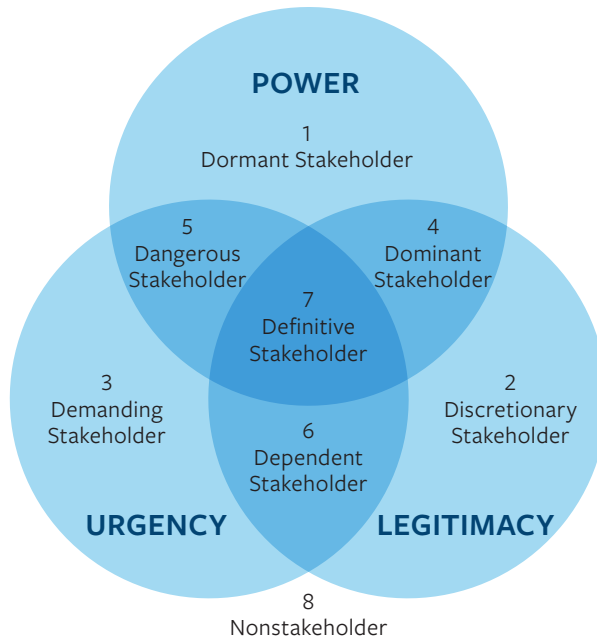


FIGURE 1. The stakeholder salience model (Mitchell et al. 1997, p. 874)

desirable, proper, or appropriate within some socially constructed system or norms, values, beliefs, definitions.” Urgency, as the third dimension of the model, addresses “the degree to which stakeholder claims call for immediate attention” (Mitchell et al. 1997, p. 869). According to this model, the more attributes a stakeholder claim has, the more salient it is. Salience is defined as “the degree to which managers give priority to competing stakeholder claims” and stakeholder salience analysis is argued to reveal the definitive stakeholders and provide a foundation for analysing stakeholder relationships (Mitchell et al. 1997, p. 869).

The stakeholder salience model has served as a tool for empirical analysis in previous research. For example, Myllykangas et al. (2010) used the salience model in a longitudinal study to depict stakeholder dynamics in strategic change of a company. The results of the study showed that over time, in the different strategic periods, the stakeholders both lost and

gained attributes. With the salience model, they were able to show that stakeholder relationships are processes that change and evolve over time (Myllykangas et al., 2010, p. 68). The salience model has been also used to measure and assess stakeholder influence (Aaltonen, Kujala, & Oijala, 2008; Eesley & Lenox 2006; Neville & Menguc 2006; de Vries, 2009), to examine stakeholder prioritising (Boesso & Kumar, 2009; Harvey & Schaefer, 2001; Parent & Deephouse, 2007), and to study responsibility reporting (Weber & Marley, 2012). It has also been used to identify stakeholder management strategies in supply chain collaboration (Co & Barro, 2009; Magness, 2008), to create corporate stakeholder cultures (Jones, Felps & Bigley, 2007), and to analyse the dynamics of stakeholder relationships (Jawahar & McLaughlin, 2001).

Despite the wide use of the stakeholder salience model in empirical analysis, many researchers have criticised the model for its limited understanding of stakeholder relationship dynamics (Friedman & Miles, 2002), the role of dependent stakeholders (Calton & Payne, 2003), and stakeholder interface and networks (Pajunen, 2006; Frooman, 1999; Rowley, 1997; Rowley & Moldoveanu 2003). Moir, Kennerley & Ferguson (2007) and Derry (2012) point out that the stakeholder salience model does not work because salient stakeholders change over time and managers need to tackle constantly changing stakeholder relationships. For this reason, a better understanding of how stakeholders influence organisations, how organisations should engage with stakeholders, and how to evaluate the impact of organisational activities on stakeholders is needed. According to Freeman (2010), stakeholder theorising needs to escape the trap of building trade-offs among stakeholders and move toward redefining how we think about value creation. In the next section, we discuss the mutuality and jointness of value-creating stakeholder relationships in more detail.

## Stakeholder Value Creation

Stakeholder value creation is seen as the ability of an organisation to create enduring relationships with its stakeholders (see Dyer & Singh, 1998; Freeman, Wicks & Parmar, 2004; Goyder, 1999; Hillman & Keim, 2001;

Wheeler & Davies, 2004). There are many ways to examine how value is created in interactions between organisation and its stakeholders and even among stakeholders themselves. Scholars have recognised that value is a complex concept with different dimensions. Mele and Colurcio (2006) identified five value dimensions: customer value, human resource value, shareholder value, firm value, and societal value. Lerro (2011) presented four stakeholder value dimensions: economic value, socio-cultural value, environmental value, and knowledge value. Harrison and Wicks (2013), in turn, identified four stakeholder utility factors representing the different kinds of value sought by stakeholders: stakeholder utility associated with actual goods and services, stakeholder utility associated with organisational justice, stakeholder utility from affiliation, and stakeholder utility associated with perceived opportunity costs. More recently, Garriga (2014) argued that instead of stakeholder utility, understanding stakeholder capability is sufficient to understand value creation in stakeholder relationships. She identified the following stakeholder capabilities as significant to value creation: being employable, being autonomous, being innovative, being entrepreneurial, being responsive, being socially integrated, being emphatic, being “green”, and being healthy (Garriga, 2014).

The Stakeholder Value Creation (SVC) model focuses on the stakeholder relationship. It seeks to understand how value is defined in organisational relationships. It argues that instead of seeking to define what is valuable for whom, leadership should seek to understand value-creating stakeholder relationships and their characteristics. It is crucial, on the one hand, to recognise that different stakeholders have different expectations toward the firm, and on the other, to understand the importance of bringing stakeholder interests together over time (Freeman et al., 2006). There is a distinction between what counts as value for a single organisation and what counts as valuable in general (Donaldson & Walsh, 2015). An organisation will likely never be aware of all stakeholder interests

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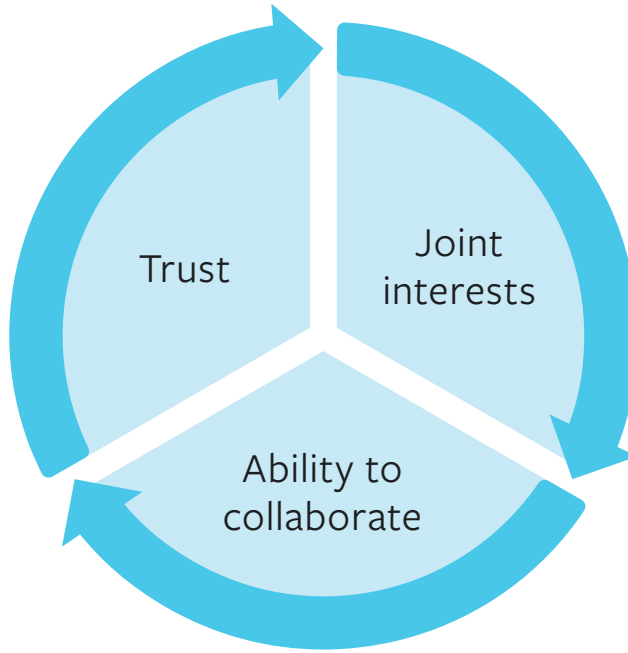


FIGURE 2. Stakeholder value creation (SVC) model

nor be able to fully manage the social processes leading to value creation. The SVC model therefore highlights three attributes of value in creating stakeholder relationships: (1) joint interests, (2) ability to collaborate and (3) trust. These attributes are synthesised in Figure 2.

Joint interests create the basis for collaboration, interaction and development of a relationship. Joint interests build on shared objectives, aligned strategic goals and a sense of understanding between the organisation and its stakeholders. Joint interests between the focal organisation and stakeholders can be strengthened if strategic goals account not only for short-term economic outcomes but also for the long-term goals of stakeholder wellbeing and societal benefits. For Freeman (2010), the jointness of stakeholder interests is central to stakeholder theory. Common history, shared experiences and mutual objectives support joint interests in the relationship and quality of stakeholder interaction

and also develop stakeholder dialogue (Harrison et al., 2010; Myllykangas et al., 2010). Dentoni, Bitzer and Pascucci (2016) argue that the capability to understand needs and demands and to recognise conflicting views among multiple stakeholders is an important part of joint interests. While sharing objectives is important in creating joint interests in a relationship, different stakeholders can have differing goals and still be willing to work together. Joint interests mean that the goals of different parties do not need to be the same. Instead, parties see value in collaboration and are willing to invest in it. For example, in a situation of organisational renewal, employee objectives may be to save jobs while management concentrates on the strategic outcome of improved efficiency. What is important in such a situation is that both groups are willing to work together to find solutions supporting organisational renewal which create value for all parties.

The ability to collaborate is the basic attribute of all relationships. The ability to collaborate is based on a mutual understanding of the importance of interaction and information sharing. Active participation and openness between the organisation and stakeholders are important aspects of the ability to collaborate. A strategic change can mean implementing new ways of thinking about collaboration, adopting new roles between the organisation and its stakeholders, developing new competencies, and learning new things (Myllykangas et al., 2010). The ability to collaborate means that both the organisation and its stakeholders see the opportunity to advance their own interests while also pursuing joint interests. Garriga (2014) showed that being responsive, being socially integrated, and being empathetic are relevant to the ability to collaborate. The capabilities to interact, learn and change are essential in stakeholder collaboration (Dentoni et al., 2016). Information sharing and learning transform relationships from transactional to collaborative (Svendsen, 1998; Myllykangas et al., 2010). The ability to collaborate also means commitment to interactions that construct solid relationships and make the co-creation of value possible (Myllykangas et al., 2010).

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**Ability to collaborate is based on a mutual understanding of the importance of interaction and information sharing.**

Commitment manifests itself in stakeholder loyalty, the stability of stakeholder relations and the development of stakeholder networks. Commitment strengthens the relationships as it allows for attaining both separate and shared targets and appreciating different stakeholder interests (Cai & Wheale, 2004). Forerunners of stakeholder value creation are ready to invest in stakeholder collaboration and are able to create processes that support continuous stakeholder dialogue (Freeman et al., 2007). In committed stakeholder interaction, meetings, gatherings and negotiations are frequent and collaboration is intense (Myllykangas et al., 2010). In time, relationships become tighter and stronger. Commitment often increases in the collaborative process.

Trust is both an element of the relationship and an outcome of a successful interaction and collaboration. Commitment and fairness along with information sharing and learning build trust in a relationship (Cai & Wheale, 2004; Myllykangas et al., 2010). Trust is the oil in the wheels of stakeholder relationships. Trust builds resilience and reduces strain on relationships in situations of change (Kujala et al., 2017). Trust is important in strategic change. Leaders who develop trust in stakeholder relationships will improve organisational performance (Wicks, Berman & Jones, 1999). The higher the trust between the organisation and its stakeholders, the easier it is for all parties to engage in joint value creation. Stakeholders who trust an organisation are willing to share information because they know it will not be used against their interests (Harrison et al., 2010). The SVC model brings trust, joint interest and the ability to collaborate together. It is therefore useful in examining stakeholder value creation.

## Discussion

Over the years, stakeholder theory has developed into a promising approach which views organisational and stakeholder interactions from the standpoint of joint instead of conflicting interests. In this chapter, we have presented two models: the salience model, which focuses on stakeholders, and the SVC model, which views stakeholder relationships as central to stakeholder value creation. With these two models, we show that attention to both the

attributes of stakeholders and the attributes of stakeholder relationships are needed when seeking to understand value creation in organisations.

The strength of the salience model is that it provides insight into identifying key stakeholders and the strategic impact of their interests; i.e., who and what counts. However, the salience model does not capture the co-operational nature of stakeholder relationships, where value is pursued together (Myllykangas et al., 2010). What is problematic is that the salience model treats stakeholder relations as transactional. It emphasises responding to short term problems instead of seeking to foster long-term stakeholder collaboration. As such, the responsiveness approach reproduces the neo-classical view centred on maximising economic value instead of generating collective value (cf. Bosse et al., 2009; Donaldson & Walsh, 2015). The responsiveness approach is one sided, as it sees stakeholder relationships predominantly from the focal organisation's point of view (cf. Davila & Molina, 2017). In order to foster dynamic stakeholder collaboration, stakeholder theorising needs to pay attention to both stakeholders and relationships. Recent literature has made a strong argument that stakeholder relationships are reciprocal (Bosse et al., 2009) and evolve over time (Davila & Molina, 2017).

Stakeholder interests need not be zero-sum games. The SVC model promotes the idea of stakeholder relationships consisting of joint interests and the ability to collaborate and trust. It directs attention to the ways by which value is created with and for stakeholders. Relationships of value creation are not considered to be built on inconsistency, rivalry and conflict. Rather, they are built on a search for mutual joint interest and collaboration. Instead of narrowing the relationship between an organisation and its stakeholders as a simple transaction-based exchange between parties focusing on economic returns, the SVC model provides an appropriate lens through which to consider the value stakeholders seek.

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## CHAPTER 8

# Leading Change: A Customer Value Framework

MIKA YRJÖLÄ, HANNU KUUSELA, ELINA NÄRVÄNEN,  
TIMO RINTAMÄKI & HANNU SAARIJÄRVI

## Takeaways for Leading Change

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Complex and dynamic changes like digitalisation and disruptive business models as well as environmental and sustainability challenges are part of any organisation's environment today. There is increasing uncertainty concerning the actions needed from managers and executives to succeed. The customer value framework presented in this chapter offers a simplifying tool and heuristic for managers to use in complex decision situations. The framework enables managers to build a concrete outside-in vision for organisational change. It helps managers to focus on outside-in thinking – starting from understanding what is valuable and meaningful for the customer, a key stakeholder of any organisation. It moves on to the way value can be created relationally with customers as well as how it can be ultimately captured. Outside-in thinking is crucial in today's VUCA world (Elkington, van der Steege, Glick-Smith, & Moss Breen, 2017). If organisations focus only on their internal perspective, they may fall behind as they lose sight of what is happening in their external environment. The chapter provides an important introduction to customer value for students, scholars and practitioners both within and outside the field of marketing interested in leading a customer-oriented change.

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The purpose of this chapter is to offer a timely introduction to customer value as a framework for leading change.

Customer value is a core purpose of successful organisations and serves as a vehicle for leading and communicating change – the fundamental theme of this book. Customer value captures what customers perceive as meaningful and important. Organisations which strive to adopt the customer’s perspective will benefit from the customer value framework. Keeping the customer’s perspective at the heart of organisational decision-making will ensure the organisation remains relevant to one of its key stakeholders – the customers. The customer-value framework is not something that can be implemented only as a top-down, hierarchical management process in the organisation. Rather, it emphasises the role of frontline employees who are interacting with customers. These employees often have vital knowledge about what customers’ value. Customer value is a relational concept in the sense that it prompts thinking in outside-in rather than traditional inside-out terms. Outside-in thinking is becoming crucial in today’s VUCA world; that is, volatile, uncertain, complex and ambiguous (Elkington et al. 2017. See also Chapter 1 in this book). If organisations focus only on their internal perspective, they may fall behind as they lose sight of what is happening in their environment due to forces of change like digitalisation, sustainability challenges and disruptive business models. The customer value framework enables managers to build a concrete outside-in vision for organisational change.

The purpose of this chapter is to offer a timely introduction to customer value as a framework for leading change. It consists of three parts. In the first part, the concept of customer value is explained: what is it and how can it be defined? In the second section, we address customer value as a key driver in the organisational transformation from inside-out (firm-oriented) toward outside-in (market-oriented) orientation. The outside-in perspective extends attention from the internal perspective of the organisation such as its resources and capabilities toward the external perspective: it starts from customers, what is relevant to them rather than what is important to the firm or organisation. The third section

provides examples of how organisations successfully apply the customer value framework in their respective contexts.

## Defining Customer Value

Customer value entails what customers perceive as meaningful and important for them. It is at the core of contemporary marketing<sup>1</sup>. It addresses the two sides of the same coin: why customers choose and buy certain products or services and become loyal to particular companies, and why these companies and other organisations succeed (Kumar & Reinartz, 2016). These two perspectives – customer and company perspectives to value – are widely used in consumer and buyer behaviour research as well as management and strategy literature. They are relevant to companies and public sector organisations alike (Mitronen & Rintamäki, 2012). The concept of customer value addresses the nature, structure and dimensions of value from the customer's perspective (Holbrook, 1994; 1999; Khalifa, 2004; Gallarza, Gil-Saura, & Holbrook, 2011). The concept of customer value proposition entails the strategic positioning for competitive advantage based on value created for targeted customer segments from the company's perspective (Webster, 1994; Anderson, Narus, & Van Rossum, 2006).

Despite the various endeavors to articulate the ultimate definition of customer value, researchers have concluded no single explanation encompasses all aspects of the concept (for a review, see e.g. Gallarza et al., 2011). Instead, researchers have addressed the concept from different perspectives, focusing on the nature, structure and dimensions of customer value. These perspectives provide a holistic view of the customer value concept and are discussed next in more detail.

First, Holbrook (1999, p. 5) defines the nature of customer value as “an interactive, relativistic preference experience.” Compared to other concepts such as quality, customer value is not an objective characteristic

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1 “Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large” (American Marketing Association, 2013).

of any artefact, but perceived (and often co-created) in interaction between a customer and a product or service. Further, customer value is a subjective evaluation, emphasising the role of contextual factors such as use situation, time and personality. Preference refers to the idea that the customer makes comparisons between different options and makes judgements based on liking some more than others. Customer value is not only about what happens in the mind of the customer – the decision processes and cognitive information processing related to choosing products and services. It is also about how customers experience value through all of the five senses in pre-purchase, purchase and post-purchase events.

Second, the structure of customer value is important, because it helps in understanding value as an outcome of evaluation and in identifying the hierarchical levels where the evaluation process (i.e. valuation) takes place. From bottom to top, these levels include attributes, consequences, and goals/purposes. The structure of customer value is often defined at the consequences level, as an equation of benefits and sacrifices (Zeithaml, 1988; Woodruff, 1997). This equation may take the form of benefits minus sacrifices (e.g. Anderson et al., 2006) or benefits divided by sacrifices (e.g. Zeithaml, 1988). Benefits and sacrifices are perceptions of bundles of attributes related to products and services in use situations (Zeithaml, 1988; Woodruff, 1997). For instance, product attributes such as luxurious brand image and expensive price might be perceived as status. Whether or not status is perceived depends on the goals and purposes of the customer. Personal and contextual factors affect this evaluation. Khalifa (2004) has suggested value components models, benefits-sacrifices models, and means-ends models as conceptual levels for modeling customer value. Value components models simply focus on positive and negative attributes as decision-making drivers. Benefits-sacrifices models focus on the customer consequences of using products and services. Means-ends models, then, take all three levels to promote the understanding of the chains linking customer goals, preferred outcomes and finally the concrete and abstract attributes (see also, Puustinen, Kuusela, & Rintamäki, 2012).

Third, the dimensions of customer value depict the subject matter of what is being appreciated. A classic approach is to differentiate between

utilitarian and hedonic value (Batra & Ahtola, 1991; Sheth, Newman, & Gross, 1991; Babin, Darden, & Griffin, 1994; Holbrook, 1999). Utilitarian value refers to rationally defined, instrumental outcomes, whereas hedonic value is self-purposeful, and evaluated based on emotional criteria. These basic dimensions can be seen as opposite ends of a continuum, leaving space in between for other dimensions to occur. One attempt to summarise these underlying dimensions is based on economic, functional, emotional, and symbolic value (Rintamäki, Kuusela, & Mitronen, 2007; Rintamäki & Kirves, 2017). Economic value focuses on the price of the offering. Customer value is created through low prices, discounts and other monetary incentives. Functional value focuses on solutions to customer problems. It is about saving customers time and effort (both physical and cognitive). Convenience, ease of use and agile service models create functional value. Emotional value sets the focus on customer experience, emphasising the role of positive feelings and emotions in value creation. These may vary from fun and excitement to feeling relaxed and secured. Symbolic value then, focuses on meanings that define one's identity. Symbolic value results from status (how does the use of this product or service present me in the eyes of others?), self-esteem (how I can build and sustain my own self-image?), and sense of belonging (with whom do I want to bond?).

If customer value is a key driver of consumer and buyer behaviour, then it must be placed at the heart of organisational strategy. This *company perspective to value* is discussed in literature under the label of customer value proposition (for a review, see e.g., Payne, Frow, & Eggert, 2017). The origins of the concept can be found in late 1980's at McKinsey, where Lanning and Michaels (1988) developed their ideas of business as a value delivery system. Their thinking challenged the prevailing business logic at that time, where the product(ion) was the starting point and customer the endpoint. In their model, they start from understanding what customers value in the first place, hence steering the system.

Customer value proposition can be defined as “an encapsulation of a strategic management decision on what the company believes its customers value the most” (Rintamäki et al., 2007, p. 624). It is essentially a tool for positioning the company around customer value creation. As Webster (1994, p. 25) explains, a value proposition can be seen as

the verbal statement that matches up the firm's distinctive competencies with the needs and preferences of a carefully defined set of potential customers. It's a communication device that links the people in an organisation with its customers, concentrating employee efforts and customer expectations on things that the company does best in a system for delivering superior value. The value proposition creates a shared understanding needed to form a long-term relationship that meets the goals of both the company and its customers.

Instead of a mere slogan, the customer value proposition transforms a company's use of resources and capabilities into enablers of relevant dimensions of customer value.

Hence, a good customer value proposition should

- a) increase the benefits and/or decrease the sacrifices that the customer perceives as relevant;
- b) build on competencies and resources that the company is able to utilize more effectively than its competitors; and
- c) be recognizably different (unique) from the competition, and
- d) result in competitive advantage. (Rintamäki et al., 2007, p. 624).

Based on the above discussion, customer value can be defined as an economic, functional, emotional and/or symbolic outcome of the evaluation of customer-experienced benefits and sacrifices throughout the pre-purchase, purchase and post-purchase stages. These four dimensions of value also serve as a foundation for identifying customer value propositions that position the organisation in the eyes of the customers and steer the implementation of strategy within the organisation. Proposing customer value challenges companies to make conscious choices about the customer segments they serve, resources they need, and competencies in which they excel. Based on the strategic customer value proposition, operational-level processes can be designed for creating the right value for the right segments in ways that break free from traditional product-centric thinking. Creating customer value suggests new roles for the customer and the organisation, and inspires new ways to integrate resources for value creation.

## Moving Toward Outside-in Thinking

The literature on strategic management and decision-making underlines the need for organisations to constantly change and adapt in order to ensure their survival. One way to survive is to transform organisational decision-making and activities to be more in line with the marketplace. A key aspect in decision-making is whether it takes an inside-out (firm-oriented) or outside-in (market-oriented) orientation (Day & Moorman, 2010). While both types of reasoning are needed in all organisations, an inside-out orientation still typically dominates decision-making in organisations across industries.

An inside-out orientation to strategic decision-making starts by considering the organisation's unique strengths, such as valuable resources, superior goods or distinct capabilities. It then involves searching for potential markets and strategies for leveraging these unique resources (Hooley, Greenley, Fahy, & Cadogan, 2001). Inside-out decision-making is therefore focused on understanding, improving and leveraging the organisation's current strengths. In the short term, an inside-out oriented organisation typically succeeds, since cost-cutting and performance enhancement exercises generate tangible and direct results on the bottom line. Achieving favorable results quickly creates a positive feedback loop. This means organisations tend to become inside-out oriented over time. An organisation with an inside-out orientation risks distancing itself from its market, ultimately losing its relevance in the eyes of its customers and other stakeholders.

In contrast, an outside-in orientation places importance on external considerations: it shifts attention from internal organisational characteristics toward the external environment. In that respect, strategic decision-making with an outside-in orientation begins with sensing and interpreting market signals, such as emerging consumer trends, shifts in competitor behaviour and novel customer processes (Payne, Storbacka, & Frow, 2008; Saeed, Yousafzai, Paladino, & De Luca, 2015). These insights are then used to anticipate, influence and meet marketplace changes by developing new capabilities and offerings (Day & Moorman, 2010).

Many organisational changes are rather driven by external than internal pressure. Evolving market dynamics, such as rapidly changing

technological infrastructure, competitive landscape or consumer needs, are often the drivers that define the magnitude and nature of change. On a wider scale, sustainability challenges caused by resource scarcity, environmental degradation and socio-political instability set the boundaries for organisational change. These drivers are external in nature, but exert internal pressure on organisations: the need to develop new competences, introducing digitised processes or investing in a new product and service portfolio. Focusing one-sidedly on current strengths may lead the organisation astray. Extending organisational attention into the external environment is a necessity for any organisation.

We argue that customer value can act as a key driver of organisational change from an inside-out to outside-in orientation. First, it shifts attention from internal quality standards to how customers eventually perceive the organisation in relation to its competitors. As organisations grow, they usually build more hierarchical layers between top management and the customer. Other stakeholders become more visible to decision-makers than customers and their changing needs. For instance, quality is typically measured and controlled through objective, easy-to-measure metrics, such as number of defects per unit, occurrences of process errors, or ratio of shipments made on time. However, these metrics might not correspond with customer perceptions of quality and thus might be misleading. Customers may for example judge quality in terms of the behaviour of customer service personnel, market positioning in relation to competition, or the brand's price image – all captured within the notion of customer value.

Second, customer value provides a useful language and frame of reference for organisational members to reflect upon the customer benefits and sacrifices related to their offerings. Simply by acknowledging that customer value is multidimensional in nature can extend organisational thinking and decision-making from product features and costs toward more nuanced and holistic considerations (Yrjölä, Kuusela, Neilimo, & Saarijärvi, 2018). Considering customer value dimensions such as emotional and symbolic value can lead to new insights. For instance, marketing a video camera can be more impactful if the message is positioned around the creation and storage of emotionally and symbolically important memories as opposed to technical features. As another example, rather than trying to reduce costly

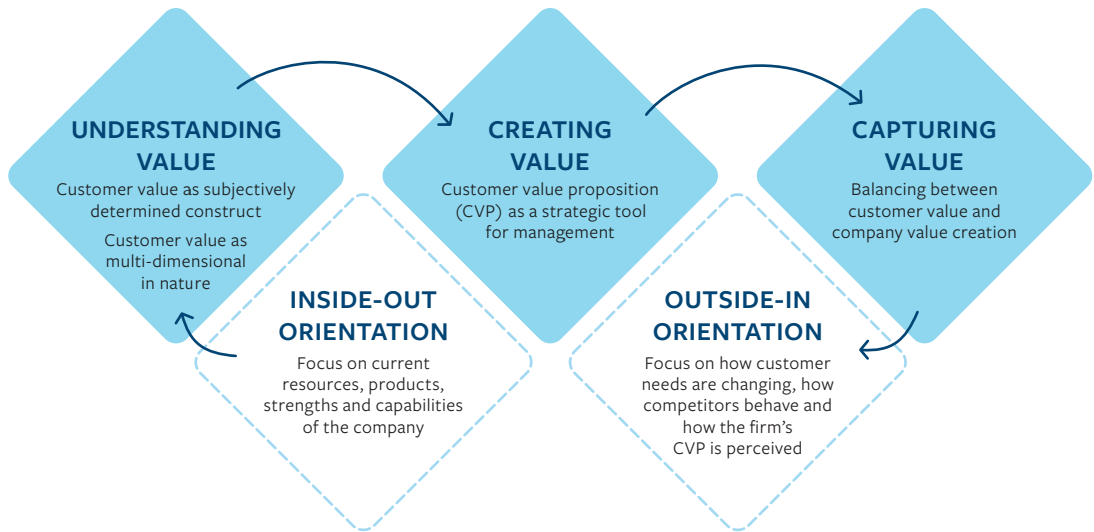


FIGURE 1. The customer value framework

queue times, an organisation can enhance the customer's experience by reducing boredom and stress related to queuing for the service.

Third, customer value can be used as a yardstick in allocating scarce resources between competing initiatives. Potential activities and investments should be measured against their ability to create new value for customers to ensure the organisation remains relevant in their eyes. Similarly, any elements of a service offering that do not impact customer value can be eliminated to reduce costs (Maklan, Antonetti, & Whitty, 2017). Decision-making should be guided by the goals of enhancing customer-perceived benefits, creating new types of benefits or reducing customer sacrifices.

Customer value is thus a powerful driver for igniting an organisational transformation from inside-out to outside-in thinking. This shift in corporate mindset makes both public and private organisations more sensitive to relevant changes that challenge their organisation's *raison d'être*.

The customer value framework is depicted in Figure 1 as an arrow from inside-out toward outside-in orientation containing three steps of understanding (1), creating (2), and capturing value (3).

## Illustrating the Customer Value Framework

This section illustrates the customer value framework in practice. The first step of the framework is *understanding value*. It involves viewing customer value as a multidimensional concept as well as considering the mechanisms through which value can be created. As described in the previous sections, customer value by its very nature has multiple dimensions ranging from more utilitarian (in the form of monetary savings and convenience) to more hedonic dimensions, such as exploration, status and self-esteem (Rintamäki, Kanto, Kuusela, & Spence, 2006). Decision-makers should start by appreciating this diversity inherent in customer value.

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It is important to note that value is not something transmitted by the company to the customer but instead, both parties participate in value (co-)creation.

Armed with a nuanced understanding of customer value, organisational decision-makers can begin to plot out ways in which customer value can be created. It is important to note that value is not something transmitted by the company to the customer but instead, both parties participate in value (co-)creation. It is necessary to scrutinise what kind of value is created for whom, by what kind of resources and through what kind of mechanism (Saarijärvi, Mitronen, & Yrjölä, 2013). To achieve this, there has to be mutual motivation to establish a change in the traditional resource integration process.

For example, Threadless.com harnesses the creativity of consumers by encouraging them to design own T-shirts and submit their sketches for other customers to vote for their favourites. This allows the firm to better understand the nature and volume of customer demand. Similarly, through the Ideastorm concept, Dell has integrated customer resources to their new product development process exemplifying another change in traditional resource integration process (see Saarijärvi et al., 2013).

In addition to understanding the dimensions of customer value, organisations should pay attention to the resources (e.g. customer resources or firm resources) and mechanisms (e.g. co-production,

co-design) through which value can be created together with customers. Broadening value creation from the perspective of the company toward customers also means the traditional roles of companies and customers are recast (Gummesson et al. 2014). For instance, customers have co-designed new services with the cruise ferry operator Tallink-Silja by observing their own cruise experiences and then providing their ideas and suggestions in an online discussion forum.

Recently, the rise of the platform business models and the sharing economy have created new possibilities for delivering benefits and reducing sacrifices. As discussed by Ngueyn et al. (2018), it accounts for tens of billions of dollars and has extended to finance, logistics, learning and many other fields of service. In the context of hospitality management, AirBnB – a famous example of the sharing economy – offers a unique combination of various customer value dimensions, including monetary savings, convenience, feelings of being home, the opportunity to experience cultural authenticity, social engagement as well as enabling meaningful lifestyles (ibid). In that respect, as multi-sided platforms gain share as business models, it becomes even more crucial to understand the evolving roles and mechanisms for value creation.

The second step of the framework involves *creating value* by formulating customer value propositions (CVPs). The CVP is a tool for linking the value needs of customers to company resources and capabilities such as pricing, customer service or branding (Rintamäki et al., 2007). A CVP focusing on emotional value (i.e., creating rewarding and memorable experiences) requires different organisational resources than one focusing on economic value (i.e., offering the best ratio of quality and price). In many contexts, such as retailing, emotional and symbolic CVP's are more likely to provide competitive advantage to companies (Rintamäki et al., 2007).

While creating customer value is a management priority, executives must make decisions regarding what dimensions of customer value to include in their CVP (Yrjölä, 2015). One concrete tool for balancing objective and subjective criteria in such decision-making is the pairwise comparison method. The method is useful in forcing respondents to make choices between CVP elements. This process of making comparisons helps

decision-makers prioritise competing targets, such as price and service quality. As one CEO reflected after completing the comparisons:

[T]he customer doesn't really care about the exact price, the economic value dimension doesn't stand out in our business. Our concept is heavily focused on the functional value: it's easy for the customer and with high quality. And emotional value is definitely an important part of the concept. That is, a good experience and good service (Respondent D as cited in Yrjölä, 2015, p.8).

In efforts to create value, it is also necessary to consider how the organisation can support its customers in their own value creating processes. According to this view, what customers buy are not products or services as such but rather resources and processes that support their life's goals and pursuits (cf. Grönroos, 2008; Gummesson, 1995). For instance, many food retailers have introduced mobile services to support customer value creation both in-store as well as before and after purchase (Saarijärvi et al. 2013). These services can be directed in the creation of utilitarian or hedonic benefits. In food retailing companies can develop mobile services that allow customers to conveniently compare prices or plan what to buy; i.e., enabling utilitarian interaction to pre-purchase processes. Receiving feedback on the healthiness of groceries or helping customers achieve lifestyle goals are examples of hedonic interaction taking place in post-purchase processes. In the context of financial services, customer value creating processes can be supported by facilitating investing-related experiences (e.g. investing as a hobby) or thinking in terms of service flows rather than in terms of purchasing investment alternatives (Puustinen, Maas, & Saarijärvi, 2014).

The last step of the framework, *capturing value*, involves identifying opportunities for ensuring organisational value creation alongside customer value creation. Value capture can take many forms, such as sourcing ideas from customers, getting customers to produce value themselves or creating new revenue sources. During this step, there exists a danger in over emphasising inside-out thinking, so the role of management is to focus attention on customer-oriented ways of enabling value capture, such as considering the perceived value for customers and their willingness to pay for the organisation's offering.

Whenever there is a fit between the CVP and the willingness of customers to provide additional resources, the organisation has the opportunity to capture more value (Saarijärvi, 2012). This can be done through various value co-creation mechanisms – depending on the dimension of value offered. For instance, organisations with economic CVP's have turned toward the mechanisms of co-production and co-distribution. Customers may help the organisation lower the cost or price by assembling products (e.g. Ikea) or delivering them (e.g. picking up goods directly from the warehouse). Regarding functional CVP's, co-development and crowdsourcing can help organisations harness the customer's knowledge and expertise related to their daily lives. As for emotional CVPs, co-experience and co-design (e.g. designing experiential service interfaces) are viewed as beneficial mechanisms to capture value. Finally, symbolic CVPs require inviting consumers to co-construct meanings for offerings in co-promoting them with the organisation – something especially relevant in today's social media saturated environment. Fans of a brand, for example, can create communities that can operate as value-creating platforms for their members and generate positive word-of-mouth (Schau, Muñiz, & Arnould, 2009). These community members are highly committed and may provide the company with ideas and suggestions for product and service development (Gummesson, Kuusela, & Närvänen, 2014). This example illustrates how value is ideally captured both by an organisation and its customers.

Naturally, all organisations have to consider their business model's capacity for value capture (Yrjölä, 2014). The business model perspective includes both the customer's and the organisation's perspectives in considering how value is created and captured. Complex environments, such as the multichannel retail context, pose challenges for value creation. Creating customer value as such is not enough if it does not simultaneously serve the organisation's goals. An example of this is the showrooming behaviour adopted by many consumers: visiting one retailer's stores to receive free advice or service and then ordering the product online from another retailer.

Finally, the value capture stage also entails implementing customer orientation within the organisation. Customer orientation brings the customer value framework into the level of executive decision-making. This is ultimately the most important level of strategy in organisations

(Saarijärvi, Kuusela, Neilimo, & Närvänen, 2014). Customer value dimensions (economic, functional, emotional and symbolic) can be used as the concrete and actionable mechanism through which customer orientation is incorporated in executive decision making. In the case of S Group's organisational transformation, Neilimo, Kuusela, Närvänen and Saarijärvi (2015, p. 49) note that "by examining the multi-dimensional nature of customer value, the S Group vision team found new opportunities to compete more successfully and incorporated these offerings in its new vision." As organisations need to reassess their strategies, structure and business model in the contemporary turbulent business landscape, a well executed vision based on customer value can be the key to success.

## Discussion

Customer value drives change in successful organisations. Whether non-profit or for-profit, operating on the public or private sector, all organisations benefit from keeping their focus on the customer amidst turbulent changes in the market. The customer value framework, depicted in Figure 1, outlines how organisations can orient themselves outside-in (market-oriented) from inside-out (firm-oriented) by understanding, creating and capturing value.

Customer value broadens organisational decision-making in at least three ways: 1. by focusing on experiences and perceptions instead of product attributes alone, 2. by looking at value creation in terms of pre-purchase, purchase and post-purchase activities rather than single transactions, and 3. by considering both the benefits as well as the sacrifices perceived by customers. First, as we argue above, novel ideas and a deeper understanding of customers can be achieved by considering the full spectrum of experiential aspects, such as tactile or olfactory sensations. Second, service design can be improved by taking a wider perspective on customer interactions, such as providing inspiration in pre-purchase situations or supplying customers with recommendations based on their own usage data in the post-purchase stage. Third, customer value steers organisational attention not just on the creation of new types of benefits, but also on the reduction of customer-perceived sacrifices such as time spent queueing, stress or

cognitive dissonance. Indeed, behavioural economists have established that people tend overemphasise sacrifices in their behaviour and decision-making (e.g., Kahneman & Tversky, 1979). This highlights the importance of understanding how customer perceive and experience sacrifices.

To conclude, we propose customer value as a framework for leading change, particularly in the strategic shift from inside-out to outside-in thinking and decision-making. Customer value challenges public and private organisations to focus on customer-oriented change. We encourage decision-makers to adopt the customer value framework when addressing the wicked problems (Weber & Khademian, 2008) discussed in the introduction of this book. The customer value framework advanced here is straightforward to apply, easy to communicate, and allows multiple perspectives to be considered.

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## CHAPTER 9

# Conflicts in Leading and Managing Change: Towards a Reflexive Practice

PAULA ROSSI

## Takeaways for Leading Change

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This chapter contributes to the understanding of what is required of today's leaders and managers who find themselves involved in complex change processes within organisations – where cooperation and conflicts are both present at the same time. Combining insights from complexity sciences, psychology and organisational studies, it suggests leadership should be viewed as a situated, social, relational and dialogic practice in which people and their experiences are foregrounded. Leading change becomes a reflexive practice in which the tensions and conflicts different people bring to their interactions with others are explored and appreciated. Conflicts are seen as simultaneously arousing uncertainty and intense emotional responses while fostering the movement of thinking through reflexivity. Being reflexive, then, means more than linearly addressing and resolving problems. It makes use of and reveals the tensions, conflicts and multiple perspectives of people engaged in organisational life. Through movement of thinking, the chapter offers alternate ways for understanding and acting and contributes to individual development.

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Traditional forms of management and leadership, designed to work in stable and predictable conditions, are no longer functioning in the organisations of the twenty-first century. The complex challenges faced by today's societies and organisations place increasing demands on management and leadership. In this chapter, I address the issues of how those in organisations could better cope with boundary-spanning, dynamic and open challenges, and what kind of expertise and practices they would need.

Today's leaders must take complexity and uncertainty, arising from different people engaging in everyday interactions in organisational life, more seriously into consideration. Instead of coming up with new, abstract slogans about leadership and change, leadership should focus on micro-processes and complexities within organisations arising from the differences between people. Differences such as conflicts of values, beliefs, attitudes and practices in organisational settings are an inescapable part of social relations. It is important to explore how to better cope with, and even make use of, these differences in organisations.

The chapter argues that being reflexive towards conflicts in organisational life can promote the development of individuals; and through individual development, promote organisational change. It views change as embedded in everyday practices and interaction in organisations. In exploration of the question of how people could better cope with, and even make use of, the conflicts in organisations, a multidisciplinary approach is

proposed. The approach highlights the capacity and necessity to think across traditional boundaries. Theoretically, the approach draws strands of organisational studies; psychology, more specifically existential phenomenology (see for example Rauhala, 1983; 1992; 1998); and complexity sciences, more particularly the theorisation of complex responsive processes of relating (see for example Mowles, 2011; Stacey, 2011; 2012). The combination of these theoretical strands emphasises the importance of

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concentrating on the micro-processes of organisation and examining the role of individual experiences and social interaction not only in everyday organisational life but also as the foundation for leading change. A framework of *reflexive practice* is introduced.

The chapter begins with a conceptual and theoretical exploration of conflicts in leading and managing change. When applicable, the text uses examples from the author's own research concerning public service development initiatives (Rossi, Rannisto, & Stenvall, 2016; Rossi, 2016a; 2016b). These initiatives take place in complex contexts and seek to address wicked problems (Weber & Khademian, 2008) which are boundary spanning, dynamic and open challenges, where stakeholders seek to improve services from different, often conflicting perspectives.

The chapter proceeds as follows. First, it explores conflicts as arising from human interaction because of the diversity of people. Second, it challenges the idea that organisational change occurs through cooperation and putting differences aside. Instead, it explores the inevitability of cooperation and conflicts. Third, it argues the experiences of individuals concerning conflict and change should be addressed in a framework of reflexive practice. The framework offers a way of thinking about the need to explore, understand, and reframe the understanding about conflict experiences, thus giving rise to individual development. Fourth, a sensemaking process about experienced conflicts through storytelling, where people are revealing and exploring their differences, is proposed. The chapter concludes with a discussion of the implications of the reflexive practice framework for organisational conflicts on leading and managing change.

## Conflicts: The Good, Bad and the Inevitable

*Conflict* is here conceptualised as the contradictory ways of forming understanding in social interaction unfolding in complex organisational settings. Drawing from the psychological perspective, conflicts are seen as an individual or a group's subjective experience and understanding of a given situation, wherein the values, beliefs, attitudes and practices are noticeably different from those of others. The complexity perspective

highlights the importance of interacting with people who form different meanings and have different experiences. From this standpoint, conflicts are considered an essential part of human interaction and social life.

Conflicts arise from human interaction. Along with complexity, they are a consequence of the fundamental diversity of human life: People have different, even contradictory, values, beliefs, attitudes and practices (Mowles, 2015; Stacey, 2011). Yet conflicts are considered problems needing to be reduced, eliminated, or controlled with tools of management. Conflicts at workplaces are to be managed or even avoided (Pehrman, 2011). Putnam (1997, p. 147) has taken this everyday organisational viewpoint further by stating that “organisational conflict is often treated as a dreaded disease or . . . deviant activity.” However, Deborah Kolb and Linda Putnam (1992) suggest that instead of being dramatic confrontations or formally negotiated public events, most conflicts are embedded in the interaction of actors doing their everyday work. They occur informally and frequently out of sight. This also applies to the management of conflicts (Kolb & Putnam, 1992).

Conflicts are embedded in organisational life and are processes in which individuals and organisations have the potentiality to develop (Stacey 2011; Wall and Callister, 1995.) This stands in contrast to the idea of a conflict as something destructive. Instead controlling embedded conflicts and tensions in complex, chaotic, everyday interactions, Stacey (1992) suggests that leading change is a way of thinking that makes use of conflicts. Conflicts are, as Pondy (1989, p. 96) argues “not only functional for the organization, [they are] essential to its very existence.” However, simply noticing the conflict is not enough. In order for something novel to emerge, there needs to be an ongoing negotiation about these differences (Mowles, 2015). When revealed and reflected upon, conflicts between multiple perspectives offer alternative ways of understanding and acting, and thus drive change.

The potential for conflicts to be productive and generate positive outcomes is not a new idea (see, for example, Coser, 1956; Deutsch, 1969; Pondy, 1967). Hargrave and Van de Ven (2017) also discuss conflict as productive phenomena by suggesting that taking into consideration the emotional energy conflicts release can awaken the experiencer from his

or her cognitive and behavioural apathy. The emotional energy translates into transformation. In everyday organisational life, conflicts often arouse intense emotional responses of uncertainty, anxiety, frustration, irresolution or even anger and fear. The intensity of emotional responses to conflicts is why it is so common to try to suppress differences and avoid conflicts. Can one address these emotions as awakenings, as Hargrave and Van de Ven (2017) suggest?

## Conflicts and Cooperation

Cooperation is often seen as a key to untangling the complex challenges of today's world, in which multiple actors and stakeholders are required to work together (Durose, Mangan, Needham, Rees, & Hilton, 2013; Parrado, Van Ryzin, Bocaïrd, & Löffler, 2013). This is especially important when thinking about solutions to complex issues such as poverty or environmental problems. Towards this end, the chapter examines development initiatives in the public services. These aim to meet the needs of citizens in effective and efficient ways.

Development initiatives provide illustrations of cross-sectoral, complex and dynamic processes, environments and problems with multiple (groups of) actors and administrative levels. Administrative arrangements in local and regional levels of government are going through major changes. In Finland, policymakers have identified a growing need to find the most effective and efficient procedures and practices in the health and social services sectors. The responsibilities for organising these services are being relocated from municipalities to counties in January 2019. Service producers from the public and private sectors, non-profit organisations, front-line workers, public administrators, politicians, customers and citizens are all involved in this process and come from various, often-conflicting perspectives. Presumably, they all share a common goal: to have services that meet the needs of citizens in an effective and efficient way. However, the practices, assumptions, values, and beliefs of these different stakeholder groups vary. For this reason, there is a wide range of perspectives on how this change should be implemented.

The mainstream view in organisational studies suggests that change in organisations occurs when people working together put their differences aside (Mowles, 2011). Public service actors face constant demands to work together in order to cope with wicked problems (Weber & Khademian, 2008) and reform pressures (Durose et al., 2013; Parrado et al., 2013). However, the presence of both cooperation and conflict in organisational life is inevitable. Complex challenges can be overcome through an understanding of boundary-spanning cooperation. In addition, understanding of the limits, obstacles and drivers to change in this new organisational paradigm is also essential.

The conceptual and theoretical argument developed here draws from research on the *Monipalvelupiste* (Multiple Service Point) which operated in Jyväskylä, Finland, between the years 2013 and 2016 (Rossi et al., 2016). The project is another example of a public service development initiative aimed at improving the quality and cost efficiency of services. Due to the economic struggles faced in the public sector in Jyväskylä, there was a growing need to find new ways, both within the city's own organisation and in collaboration with the nongovernmental sector, to organise social and health service delivery. This was officially pursued through cooperation between different service sectors. While the organisers of the project emphasised cooperation they nevertheless did not make use of the diversity of the actors nor did they pay attention to the conflicts in their efforts to improve public services.

In contrast to the idea that change occurs by people collaborating and setting their differences aside (Mowles, 2015), the strands from complexity science understand change differently. From this perspective, change occurs not by concentrating on cooperation and setting differences aside but by negotiating differences in interactions with others (Mowles, 2015; Stacey, 2011). Instead of focusing exclusively on cooperation in the organisational context, complexity perspective sees value in both cooperation and conflict. As Cooley (1918, p. 39) argued one hundred years ago, "...conflicts and cooperation are not separable things, but phases of one process which always involves something of both." This is especially relevant because stakeholders positioned at different points in organisational structures invariably have different interests.

## Conflicts and Change: A Reflexive Practice

This chapter makes use of a set of theoretical strands from organisational studies, psychology and complexity sciences. Through these strands, conflicts and change in complex organisational settings, are understood using the framework of *reflexive practice*. Reflexive practice refers to the need to explore, understand, and reframe understanding of conflict experiences, so that they would give rise to individual development. The framework consists of the following underlying assumptions (see Figure 1): subjective experience, relational life context, sensemaking, and storytelling. Reflexive leadership practices emphasise the experiences of individual actors and pays attention to everyday interaction in an organisational context.

- 1 **UNCERTAINTY ARISES**  
when people with conflicting values, beliefs, attitudes and practices in complex organisational settings are cooperating while trying to get things done, conflict is inevitable.
- 2 **SUBJECTIVE EXPERIENCE**  
Conflicts in organisational settings are happening in multiple levels but always experienced by an individual. This calls for emphasis on micro-level analysis – people and their subjective experiences.
- 3 **RELATIONAL LIFE CONTEXT**  
Who we are as humans, and how an individual experiences the world, is central, but it always relates to the life context of the one experiencing.
- 4 **SENSE-MAKING THROUGH STORYTELLING**  
Making sense of their experiences, people tell stories. In these sense-making processes, the transformation of meanings and action has the potentiality to emerge.

FIGURE 1. The underlying assumptions of reflexive practice

First, conflicts of differing values, beliefs, attitudes and practices of people in interaction are inevitable and thus *arouse uncertainty* whilst people are competing and cooperating in trying to get things done (Stacey, 2011). Second, conflicts occur on different levels: between the values of individuals and organisational demands, between individuals working in the same organisation (perhaps a leader and an employee), or between the practices and values of organisations required to collaborate. Two practical examples of different conflict levels emerge from research concerning Finnish public service development initiatives. First, conflict took place between the service practices of a non-profit organisation and the public service system (see Rossi, 2016a). Second, another level of conflict was between groups of actors – citizens, service producers, and public servants – with different values and beliefs (Rossi, 2016b; Rossi et al., 2016). Regardless of the level of conflict, conflict is *always experienced subjectively at the individual level*.

Third, the *relational life context* offers ingredients for the individual to experience. Who we are and what we experience are in relation to social life and the life context. Our impressions about the self and the world are constantly forming and changing as we interact with others (Rauhala, 1983; 1992; 1998; Stacey, 2011). This suggestion relies particularly on Norbert Elias's (1978, 1991, 1939/2000) argument that the individual and the social are two sides of the same coin. People form the social, and the social forms people. The individual life context also consists of concrete conditions – place, culture, language, history, community, society and human relations – to which an individual is in relation with (Backman, 2016, 74; Rauhala, 1983; 1992). The psychological perspective, then, draws the attention to one's life context, emphasising individuality, subjectivity and the experiences of individuals (Rauhala 1983; 1992; 1998). Where Mead argues: “we become a self intersubjectively” (as cited in Mowles, 2015, p. 22), Rauhala (1983; 1992; 1998) refers to this as existence in relation to reality.

Fourth, the profound aspect of one's life context is in relationality and *processes of sensemaking*. People are in relation to and create meaningful relationships with all factors present in their personal life context. It is in the individual sensemaking processes where experiences concerning life context and its aspects become meaningful. The sensemaking process

is a continuous, dialogical and reflexive transformation; it changes the person's meaning relationship with the individual life context, thus shaping the actions and/or the meanings given to actions (Rauhala, 1992). When individual sensemaking processes manifest in relations with other people, conflicts arise and transform. Making sense about conflicts experienced in everyday organisational life is a back-and-forth dialectic where exploring one point of view calls out an alternative, possibly conflicting point of view that can potentially modify the former. This dialectic demonstrates the movement of thinking that generates more than one perspective about the situation at hand (Mowles, 2015.)

To summarise, the development of new individual meanings and perspectives occurring in sensemaking processes of reflexive practice can potentially foster the development of individuals and organisations. The framework of reflexive practice suggests the need to explore the differences in individual life contexts, which we bring to our relations with each other while trying to get things done in daily organisational practices. This reflexivity of contradictions is a highly individual and subjective act of exploring and recognising the tensions in our own thinking. Yet, it is also happening in social and relational environments. It generates more than one perspective through the movement of thinking, fostering the possibility of transformation.

## Conflicts: Sensemaking in Research

The sensemaking process of exploring differences in thinking and in one's life context can occur through storytelling. Storytelling is a way to practice the reflexive practice – to stop, think and make sense upon the conflicts and complexity. As Tsoukas (2011) argues, new knowledge can emerge when unreflective practices are turned into reflective ones in reflexive social interactions. Storytelling and narratives are windows to the meanings actors ascribe to conflicts and their experiences. One's impressions about the self and the world can be seen as a contextual, constantly forming narrative. The "truth" about conflicts is constructed continuously in people's minds. This sensemaking also takes place

relationally, in relation to the experiencer's situationality (Backman, 2016; Brown & Heggs 2005; Stacey, 2011). In storytelling, the constructing of reality is happening in relation to others. The research process offers a window for the construction of reality to manifest in a relationship between researcher and informant.

Researching experiences entails emphasising the meanings and interpretations actors assign to conflicts they experience and how they articulate these meanings. Conflict is not important in and of themselves. What becomes important are the changing meanings actors give to these experiences while making sense of and telling stories about them (Kolb & Putnam, 1992). Mather and Yngvesson's (1980) understanding of conflict is that it is not something that "happens" – and can thus be studied conclusively – but rather a process, transforming over time because of the contradictory interests and meanings given by actors. This invites researchers to look beyond the rational, public scene of conflict (Kolb & Putnam 1992) and to uncover the hidden, informal and private meanings, aspects, emotions and transformation embedded in conflict processes. In order to understand conflicts in complex organisational settings, one – be they a practitioner, leader, manager or researcher – must look beyond the events actors are facing. Kolb and Putnam (1992) suggest that when studying conflicts, the unit of analysis should be a dispute(s).

Development initiatives in Finnish public social and health services provides illustrations of cross-sectoral, complex and dynamic processes, context and problems with multiple stakeholders and levels of administration. All actors share a common goal – to have services that meet the needs of citizens in an effective and efficient manner. However, interpretations about what was effective and efficient, and from whose perspective, varied considerably. By studying the experiences of actors and recognising the differences they identify and experience while cooperating with others, researchers can gain an increased understanding as to how conflicts shape and affect organisational outcomes. Research on conflict can also help to explore differences in order to aim for positive outcomes.

The task of a researcher is first to help informants understand, and potentially re-conceptualise, their interpretations of conflict experiences. Second, it is to help them transform the sensemaking process. Putnam

(2010) refers to these processes as framing and reframing; her assumption is that negotiators are people who have the possibility to foster these processes. Taking the negotiator's role, a researcher can enact framing and reframing, most commonly in the interview processes where informants can reflect on their experiences and form their own understanding of the overall context. Understanding can be shaped by exploring alternative explanations and reframing one's relation to their life context whilst telling stories. In research, this can be understood as a co-constructive sensemaking process between researcher and the informant. In everyday organisational life, the sensemaking process can occur between a consultant and employees and/or leaders and managers; between leaders, managers and employees; between employees; or between different stakeholders, to name a few.

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Understanding can be shaped by exploring alternative explanations and reframing one's relation to their life context whilst telling stories.

## Discussion

Why, then, is it so difficult to address conflicts as drivers of transformation? Arguably, the subjectivity of conflict, always experienced by individuals, affects the process of reflexive practice. After all, conflict is a contrast to individual identity. The need for change, then, calls for changed identity. This affects the intensity of the emotional responses of uncertainty, frustration, or even anger, to name a few, to which the conflicting practices, attitudes, values and beliefs give rise.

Leaders attempt to overcome these often disturbing and negative emotions aroused by conflicts by implementing traditional ways of management and leadership. Yet these do not work very well in settings of uncertainty and complexity. It is easy – but not quite complex enough – to place one's trust and hopes in cooperation when dealing with wicked problems and everyday tasks in complex organisational life.

However, in order to be successful amidst these complexities, leaders cannot rely on attempts to pursue only balance and consensus, which can lead to repeating old ways of doing or copying others (Stacey, 2011). I have argued instead that the role of conflicts, and how they are linked to leadership and change, becomes crucial:

Let me suggest that an organization is precisely the opposite of the cooperative system. Think of an organization as a means for internalizing conflicts, for bringing them within a bounded structure so that they can be confronted and acted out. . . . Far from being a “breakdown” in the system, conflict in this alternative model is the very essence of what an organization is. If conflict isn’t happening, then the organization has no reason for being (Pondy, 1992, p. 259).

In the social relations of organisational life, cooperation and conflict are both present at the same time. This is because people bring their differences to their interactions with others. Through dialogue and negotiation of these differences, learning and change can emerge. It is not only at negotiation tables but especially in everyday discussions that people have the potential to change and build their future – and the future of their organisations (Stacey, 2011). In leading change, then, it becomes essential to pay attention to everyday interaction, and most importantly, to concentrate on the negotiation of differences as well as on reaching out for conflicts in a manner that encourages them to be negotiated rather than avoided.

The argument, developed on the basis of empirical research on boundary-spanning public service development initiatives, is that being reflexive towards the conflicts of organisational life could promote the development of individuals, and change in organisations through individual development. Dealing with and aiming to lead change is about foregrounding people and their experiences and paying attention to what is happening, in particular within intra and inter-organisational social relations. However, because uncertainty and intense emotional responses arise from conflicts, it is understandable that people are not keen on addressing their differences. The practice of leadership and management then becomes about enabling cooperation and emphasising, not

suppressing, diversity. This stands in contrast to the idea of leadership as choosing one “best possible” intention over another in a top-down manner.

In addition to their need to become reflexive practitioners, leaders and managers are in a position in which they have a responsibility to enable their employees to develop their abilities to think and express themselves reflexively. This might involve, for example, enabling dialogue and negotiation, offering sufficient time and opportunities to pay attention to and be reflexive about how and why their work is carried out in practice. It is the responsibility of leaders to deal with conflicts involving values and power and to help others do so in a reflexive manner (Cunliffe & Jun, 2005). Conflicts are inherently moral and ethical activities (Ehrich & English, 2013). This suggests that reflexive practices offer a possibility for organisational transformation through more critical, responsible and ethical actions.

Change, and thus leading change, requires criticising habitual practices as well as questioning one’s own thinking, experiences and the ways one is relating with others (Chia, 1996; Heidegger, 1966). This reflexive practice opens up the possibility of changing current practices, giving rise to alternative ways of thinking and doing. However, actors are embedded in their historically constructed institutions and life contexts. It is not easy to let go old ways of being in relation with the world. Because changing one’s way of thinking is a profoundly subjective, individual act of self-reflexivity (Cunliffe & Jun, 2015), it can be a difficult process. It is, however, the most important process in the development of individuals and organisations.

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## CHAPTER 10

# Evaluation as a Tool for Leading Change

PASI-HEIKKI RANNISTO & ANNA SALORANTA

## Takeaways for Leading Change

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In this chapter, we acquaint the reader with evaluation, touching shortly on its functions and some of the theories informing it, as well as the role it plays in the changing public sector. We introduce practical ways of using evaluations as tools for managing change. Finally, we argue these are tools we already often have at our disposal but do not utilise fully. Leaders may not recognise the opportunities and tools an evaluation provides them with in terms of leading change. We hope to show how embracing a wider culture of evaluation will build a foundation of systematic and shared information helping leaders create and discuss change across sectors.

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Effecting change in complex and challenging contexts requires tools in addition to leadership skills. Evaluation is one such tool; it offers a functional point of view of leadership and the practical management of change by describing complex environments, relationships, and problems from the perspectives of all stakeholders. Evaluation does not only show whether the progress achieved is in line with project objectives. It can also be used to educate the organisation or network about an ongoing process of change. Such a process provides an opportunity to define and communicate leadership visions and goals as they pertain to individuals, processes, and organisational structures.

Change, evaluation, leadership, and management share many of the same functions and operation models, most notably the setting of objectives and the defining of practical outcomes and measurements. Several studies have shown that leading change efficiently requires evaluation. In practice, few organisations do this. Consequently, they never find out why the desired change has manifested as something undesirable or why their outcomes do not match their designs (Doyle, Claydon, & Buchanan, 2000; Hayes, 2002; Kirkpatrick, 1985; Owen & Rogers, 1999; Skinner, 2004). Both change projects and evaluations are central themes in results-based management. Their key factors are achieving development targets, clarifying the roles and responsibilities of actors, increasing transparency and accountability in functions, and using good-quality data to improve decision-making (Rist, Boily, & Martin, 2011).

Our approach to evaluation and its use in leading change is broad, requiring us to examine our subject from many different angles. First, evaluation can be seen as a means of measuring performance. The objective can vary from the success of an individual development or change project, operational work, organisational restructuring, and implementation of organisational strategy, to the success of a policy on a national or local level (Figure 1). Second, evaluation is needed when leading the process of change itself.

Evaluation can be done for a number of different purposes. In education, for instance, evaluating students is a key process for teachers. Based on the information gained, a teacher might decide to teach in a different way or give extra support and encouragement in certain areas. In social work



FIGURE 1. Different foci of evaluation

or healthcare, the effects of interventions and treatments in the lives and behaviours of individuals is under constant scrutiny. In this context, the process shows the connections between the chosen intervention, the individual's behaviour, and the outcome, all in relation to the original objective. The change, development, and healing of an individual is followed closely during care, as are its effects on his or her life. In these instances, evaluation is a natural part of a service process, like a visit to your healthcare provider or an exam as part of a learning process.

Evaluation can also be directed towards the outcome of a larger government reform or policy. This can be done from a number of different perspectives, such as that of the citizen, politics, or government (Airaksinen, Haveri, & Vallo, 2005). The different roles of citizens can be the object of interest. They are voters, decision makers, service users, and taxpayers. The political viewpoint would entail examining the political administrative systems as well as the division of labour between different actors. From a governmental point of view, one would focus on the administrative culture and the work of civil servants as well as on the government as a whole. Another point of interest might be the objectives stated in legislation and how these have been implemented by the government (Temmes, 1994).

Reforms are often evaluated in different ways throughout the stages of their implementation. From the very beginning, the focus would be on the design, objectives, and available resources. At the point of completion and even past that, the focus would be on how the original objectives were met and whether the change had the desired effects. A reform can also be

evaluated during its implementation, the object then being the process of change itself and the actions taken to achieve it. It has been suggested that all government reforms should undergo evaluations from their planning stage onwards (Skinner, 2004; Temmes, 1994).

## A Short History of Evaluation in the Public Sector

Three distinct stages can be identified in the development of evaluation in the public sector, all of them linked to a change in welfare state policy making (Wollmann, 2003). From the 1960s onwards, there has been increasing interest in public policy-making and its implementation. In both the academic and the public spheres, it has become clear that formulating policies and funding programmes are simply not enough to effect societal change. There has to be accountability and some idea of how programmes work. Research and evaluations focused on how policies are taken from plan to reality. Many factors have been identified as having an impact on the process of implementation, not least of which was the effect of individual actors themselves (for an introduction to policy implementation, see, for instance, Pressman & Wildavsky [1984] or Sabatier [1991]).

However, research on implementation alone did not sufficiently inform policy-makers of the efficacy of their policies. Examining outcomes as well as implementation was necessary for sufficient feedback for policy reformulation. The goal was to improve not only societal discrepancies but also the policies addressing them. This was the beginning of the second stage of development in the 1970s and 1980s (Rist et al., 2011; Wollmann, 2003).

Simultaneously, New Public Management (NPM) strongly affected the execution of public policies. They were to be brought under the same kind of efficiency and output requirements as the private sector and industry. NPM strove to bring about a more efficient and economic thinking to public sector operations and management (Pollitt, 1995). This meant that both the policy outcomes and formulation were examined, changing the way evaluations were conducted. Merely measuring output does not satisfy the

question “Is this policy efficient?” In the 2000s, evaluation has developed alongside the metamorphosis of NPM into New Public Governance (NPG), bringing about the third stage of development.

During this period, policy-makers have sought to adapt to growing changes in increasingly complex environments. Instead of policies or projects being implemented from the top down, the emphasis has been on shared responsibility and shared decision-making between partners. Controlled public-private partnerships are evolving into networks. Top-down implementation has given way to co-creation. Partnerships are no longer seen as being formed solely between organisations but now also include citizens, either as active individuals and customers or as non-profit organisations and interest groups (Christensen & Laegreid, 2017). Not only has the public sector changed in the Western welfare state, especially in the Nordic countries, but democracy itself is also finding new ways of expression. The rate of change is challenging and it changes the way we have to think about and conduct evaluations. To produce the information necessary for effective leadership in this complex context, evaluations need to factor in a wider range of stakeholders, operational cultures and networks. The range of different identifiable mechanisms possibly effecting the outcomes becomes much wider.

The outcomes of varying combinations of contexts and mechanisms offer evaluation researchers the building blocks for testing different theories. There is no one true evaluation theory but several coexisting ones. Evaluators are responsible for clarifying their theoretical approach and the methods they have chosen in their own work. One of the theories commonly used for complex evaluations is, the realistic evaluation framework. It is popular today because it accommodates a variety of methods, thus making it easier to measure more complicated changes. The “fathers” of realistic evaluation are Pawson and Tilley (1997). They developed the approach around a basic theory-driven concept of Mechanism + Context = Outcome. This means that the building of the evaluation framework starts with a theory of causal explanation. The regularities of patterns in social activities form the mechanism, and all human activities happen in a specific context.

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Top-down  
implementation  
has given way  
to co-creation.

The realistic evaluation cycle is built around testing for variations in variables in an attempt to expand the underlying theory. The testing itself, according to Pawson and Tilley (1997), is done with the method best suited for answering the research question.

Realistic evaluations are done in cycles, each one adjusted by the knowledge acquired in the previous cycle. When evaluating a social intervention, it senses to focus first on statistical analysis to get the big picture. Then, in consecutive cycles, focus more deeply on more interesting aspects by using qualitative methods (e.g., interviews) in a specific community/part of the population.

The specific value of realistic evaluations is that the design is adaptable to the course and needs of the project. There are various opportunities to educate and engage the actors and stakeholders during the different cycles of the evaluation. Ultimately, it is the responsibility of evaluators to ask and answer questions that will most benefit the project at that particular time. These could be questions about what the preconditions for a successful implementation are, questions about how a project is being implemented and where it is likely to lead, and questions about what kinds of outcomes a certain project has produced and whether these are in line with the objectives.

## Evaluation as a Tool for Creating and Leading Change

The theories of change management and realistic evaluation share some commonalities, not least of which is the fact that each evaluation process or change is unique. Generalisations only work when operating with a broad analytical frame of reference that is comprehensible to all involved. Without a well-thought-out design, neither change management nor evaluation will produce sufficient information to determine success or enable learning (Kuipers & Richardson, 1999; Skinner, 2004).

Evaluations and processes of change are affected by the context and conditions. Both attempt to create a systematic method of implementation

and approach to the objective. In the former, the attempt is to conduct the evaluation process itself. In the latter, it is to effect change (Preskill & Torres, 1999; Russ-Eft & Preskill, 2009). Context is an important factor when evaluating different changes and interventions or when trying to generalise and learn about causal pathways (Blamey & Mackenzie, 2007).

Both change and evaluation approaches share a disinclination to use qualitative methods as the only data collecting strategy for the evaluation of complex interventions or changes. One reason for this could be that even though the participant's experience and view, as measured by qualitative methods, produce an estimate of the effects of conditions particular to a project, the results will not be relatable to any other project. The results are relative. For this reason, using qualitative methods might leave the question of what works in the greater context of things unanswered (Blamey & Mackenzie, 2007). This is not to propose that qualitative methods are obsolete, but rather that being aware of the possibilities and restrictions of the methods one intends to apply is central. The material or data for evaluation can be obtained from many sources. A secure approach is to collect data from numerous sources, both quantitative and qualitative. This enables data triangulation in order to ensure the reliability of the results.

In the management of change, the final result is the focus of all attention, whereas this is only part of what falls under an evaluation, where the processes, different conditions, steering mechanisms, and management are all of interest and examined with the eyes of an outsider. The objectives of a project or reform direct people's actions as well as the evaluation of the progress. Operations and processes are measured and can be realigned if they are not in line with the set objective. Furthermore, evaluation will examine the change as a whole during the entire process, while management of change looks forward to the end result. In the management of change, decisions are made for an assumed future reality, when evaluation can operate more or less in reality (Blamey & Mackenzie, 2007; Skinner, 2004).

By striving for economy, effectiveness, and practical solutions, processes of change and evaluation aim at finding new ways to function by looking for unsuitable ways of action and changing them. Measures central to reaching the set objectives can be found naturally in these processes (Blamey & Mackenzie, 2007; Pawson & Tilley, 1997). Pawson

and Tilley (2001) emphasise the importance of developing a culture of evaluation and the perseverance required to do so. They add that the traits of the evaluation factors also work well in managing organisational change. When problematic themes arise during an evaluation, their origins may, after further inspection, already be visible in earlier evaluations. Being able to rely on several consecutive evaluations or evaluation cycles helps to identify the root causes of a problem, thus enabling leadership and management to tackle the disease instead of the symptom. This plural nature is also true for the management of change. Each process of change already bears within it the seed for the following one. Some things will change in the intended direction, but something else will fail to change. Development through evaluation is cyclical, not linear (Bouckaert & Halligan, 2007).

During the evaluation, small questions are worth asking, even to test big theories. In evaluation, as in change, it is worthwhile to proceed with small steps even if the overall picture is big. It is important to use as many different methods as possible. This way, a clearer, more versatile picture can be obtained from the actual outcome. It is important to notice which mechanisms are relevant to producing optimum outcomes by context. Policies affect several practical mechanisms, changing and directing them. It is possible for different environments and conditions to produce similar results. Meta-analytic inquiries may help to make common policy mechanisms more visible. Asking the “why” questions and trying to answer how the conditions have affected the outcomes is important (Pawson & Tilley, 2001).

As leaders and evaluators, we need to be careful never to assume to know what works. Instead, we must persistently try to prove it. People act differently, conditions change, and new points of view arise. These can all have an effect on what works in a given situation. In both evaluation and managing change, the focus should be on finding out what genuinely works and why (Pawson & Tilley, 2001).

Leadership makes up its own level of evaluative inquiry. Today, many national policies have goals such as the change of organisational culture. This means changing the way different professions or departments communicate, form networks, and acting around shared processes

for the benefit of shared goals and/or clients. These are truly complex environments. From a leadership point of view, creating a shared culture of operation in a multiorganisational context poses new demands, as the actors involved are not under shared management. Instead, it has a number of leaders, all representing their own professions. Evaluations can provide a tool for shared objective setting and the defining of goals, as well as a natural platform for discussion and education. Different studies have pointed out the necessity of feedback in gaining acceptance of, and commitment to, change objectives. Evaluation done from the beginning of the change process can provide staff with the opportunity to tell the management and leadership about its own experience; it also offers development proposals for the implementation of change (Carnall, 1990; Kirkpatrick, 1985; Preskill & Torres, 1999).

## Evaluation in Practice

The reason that evaluations have become so common may lie in the direction in which the public sector has evolved, requiring projects to quickly and efficiently source information and gauge their starting point. The choice of what to measure to determine the success of a project is not trivial or simple. Between deciding what to measure (quality, customer value, output, or input) and what point of view to choose (customer, employee, service provider, or service commissioner), it can be hard to show indisputably the effects of any process.

Evaluation is always connected to some purpose or objective. Without this, it is often difficult to see the difference between a success and a failure in complex situations and environments. Successes and failures can be difficult to relay without the information provided by an evaluation process (Patton, 1987). At best, evaluation will provide new information, points of view, and solutions that can be used in the next phase of a reform or organisational change (Chelimsky & Shadish, 1997). At its core, it is a question of making value judgements and assessments to reach a conclusion in terms of success. This is done through a regulated process wherein a phenomenon is examined through a set of evaluation criteria (Vedung, 1997).

The data used are often collected from numerous sources in both qualitative and quantitative forms. This helps to ensure the reliability of the results. It is also important to handle data to ensure the respondents' privacy and the transparency of data collection and use. Even though the evaluator strives for neutrality, in reality, he/she is often comparable to an active change agent. It is also worth noting that the more the evaluator participates, the more the evaluation project starts to become a driver for change (Kuipers & Richardson, 1999).

The processes and outcomes of evaluations can be seen as interactive constructs of meaning defined by evaluators and evaluatees alike. Underlying this are the intentions, norms, values, and actions of both. Studies have found that the central characteristics of evaluation practices are as follows (Chen, 1990; Kuipers & Richardson, 1999; Patton, 1987; Scriven, 1991):

- When evaluating a process of change, the objectives of the evaluation will evolve along with the process. As a result, the organisation itself will also change.
- The aim is to generate integral knowledge and to communicate it to create a broader understanding of the object.
- Evaluation is messy.
- Evaluation results entail multiple processes including negotiations and communication.
- The object of an evaluation is specific to time and place, as it is constantly evolving.
- Evaluation is formative, and its purpose is to improve and make participants aware of its goals and developments.
- The outcome of an evaluation process ought to be relevant, acceptable, and understandable.
- Starting points of evaluation include implicit or explicit theoretical notions of goals, effects, processes, and so on.
- A mix of research strategies, methods, and techniques (both qualitative and quantitative) can be used.

Policies and strategies are often evaluated *ex ante* or *post hoc*. An *ex ante* evaluation is carried out to make some sort of prediction about how a policy change or a new policy will have the desired effect, as well as

to identify possible unwanted effects. A post hoc policy evaluation will speak to the original goals versus outcomes as well as the implementation itself – for instance, in terms of compliance with national and international regulations. The task is often put to tender by a governmental body under whose jurisdiction the policy falls. The way in which the tender is formulated in terms of goals, objectives, and time frame will invariably affect the focus and methods of the evaluation.

A thorough evaluation at the policy level requires starting from the planning phase and the first stages of the implementation of the reform. This usually means an internal process is begun alongside the planning phase of the project to ensure not only a reliable evaluation of the first stage, but also that all relevant material is available for upcoming evaluations. Ideally, in a post hoc evaluation, the change and its effects will be visible in all the different contexts in which it played out. In complex environments, this means a variety of stakeholders, contexts, and consequently, material. It makes sense to have a number of evaluations before and during a policy reform, and then to gather all the results at some point after its implementation. It is worth noting that different phenomena of the change cannot be constructed after the fact if the material has not been collected in real time and in context (Skinner, 2004).

Evaluation at the operative level speaks to the local and regional governments and their ability to affect change. It can be done before, during, or after implementation, both internally and externally. The previous level was concerned with creating the necessary conditions and incentives to bring about change. The operative level is the context in which change is created. Here, policies turn into flesh and blood. The relationships and workings between governments, counties, joint authorities of various kinds, and local politics and municipalities form abstract policies into concrete plans.

It is at the level of services that a public sector reform can really be measured. Here lies the basis for answering questions about costs, efficiency, and distribution of services. The organisation or production

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The operative level is the context in which change is created. Here, policies turn into flesh and blood.

of the services, or both aspects, are most often the point of interest. It is easy for managers and leaders whose operations are being evaluated to feel as though they are under scrutiny. After all, it is their responsibility to implement a national or regional policy, and their performance data are being used to show whether this has happened. The evaluation process itself can encounter some resistance within an organisation or network; this is most often because individuals misguidedly feel as though they themselves are under scrutiny. It is critical that evaluators maintain a good and ethical relationship with the evaluatees throughout the process, and make the objectives and goals of the evaluation clear to minimise discomfort and resistance.

When evaluating operative organisations (e.g., municipal organisations and joint authorities) undergoing change, it is important to have access to data recording decisions and administrative solutions. These create the practical conditions for carrying out and managing change. The quick decisions and reactions common in projects are often left undocumented. This poses a challenge for evaluation, as it is often difficult to verify these later on. From the research point of view, this leaves the interpretation of the true reasons for the achieved outcome open to mistakes.

At the level of public services, evaluations are often done before, after, and during a reform and by both internal and external parties. This is not only because performance measurement is an integral part of both NPM and NPG, but also because it is important to gain a comprehensive picture of the change and its effects. Different evaluators seek to answer their own questions, gathering a diversity of materials that help to strengthen the overall evaluation.

## Critique of Social and Healthcare Service Evaluation

There is some criticism among social and healthcare workers and researchers of social work against the idea of measuring effectiveness. NPM is thought to have brought about evaluation models that are too focused

on market values and might eventually serve to weaken the foundations of the welfare state (Brodkin, 2008; Mänttari-van der Kuip, 2013; Palola & Karjalainen, 2011; Rajavaara, 2007). This unwillingness to be measured can also be construed as an attempt to protect the profession and field of research from outside influences and criticism. Decision-making in social and healthcare services is often based on authority rather than information. Authority, according to Gambrill (2001), can be used to control reality through rhetoric. This creates a chasm between the rhetoric and proven outcomes, the filling of which would require systematic information gathering and measurement, as well as the evaluation of outcomes and effectiveness (Gambrill, 2001; Paasio, 2003).

Despite these criticisms and doubts, it is clear that systematic evaluations of public services will continue. Digitalisation and access to mass data provide quick and cost-efficient opportunities to estimate and evaluate the productivity and effectiveness of any form of decision-making. Alongside the professions, organisational management and politicians also have stakes in the provision and commissioning of services. By choosing opposition instead of participation, the professions run the risk of other arguably less informed stakeholders shaping the future of performance measurement in public services.

## Discussion

The importance of evaluation as a tool for leading change is often underestimated. In this chapter, we have aimed to show some of its different uses in leadership questions. Taking the public sector as our starting point, we argued that the information provided by the almost ubiquitous evaluations in the sector can be harnessed to provide leadership with tools for anything from performance measurement to communicating visions and goals and creating learning in the organisation. To achieve this, timing is crucial.

Communicating visions and goals can be made a natural part of the objective setting and defining of evaluation criteria. Defining evaluation criteria is something the evaluators cannot do alone and will need the

input of the organisation for. Taking the question to different levels of the organisation will not only help to open up and clarify the criteria but will also serve as opportunities for leadership to communicate personally the goals of the change process. Meeting in person is a two-way process. The messages and information exchanged flow both ways. This means the leadership are given a chance to communicate their visions and goals and employees also get a chance to clarify what the envisioned changes entail for them.

Any process of change is likely to bring with it some amount of resistance. This may be expressed as active disagreement with the goals of the change or simply be caused by “reform exhaustion”—trying to implement too many changes at a time or in quick succession. To remedy this, employees need to be provided with the opportunity to discuss the issue with each other and with the management. That the superiors also have the opportunity to join the mutual discussion is essential. Systematic and transparent planning, measurement, and follow-up help to facilitate the lead-in of the change and of the evaluation processes (Doyle et al., 2000). Through an evaluation process, disgruntled factions in the organisation as well as its leadership and management are provided with information about the success of the process by a neutral third party. An evaluation will provide opportunities to educate the organisation about the different phases of the change process.

With the help of leadership, employees can become motivated to implement change and to learn new skills. Having an understanding of one’s environment and the support of one’s superiors helps in the learning of new skills, in taking on new information, and in the perception of causal relations within the organisation. All of this can bring about organisational learning. New and important fields of expertise and new practices may be discovered, leading to changes taking place in the work environment or in individual tasks (Blamey & Mackenzie, 2007; Doyle et al., 2000).

One of the most useful tools for leading change that evaluation offers is the opportunity to steer a process of change. This is not to say change processes are otherwise not steered, but merely to point out how well the evaluation process lends itself to be used for this purpose. Evaluation can be used to identify the need to change course. The initial signals that something needs to be fixed can be subtle and lost in the noise of

the other day-to-day information of the organisation. Having evaluation data, which has been analysed and approached differently compared with normal performance measurement data, may help in the early detection of problems. Information and signals are more easily and reliably identified by providing an information feedback cycle independent of and parallel to the organisation's own. A neutral third party providing this information often makes it more agreeable to sceptics of change, who are consequently more likely to engage in discussion about the process, providing a valuable perspective on the overall change discussion.

In conclusion, an evaluation alongside a change process can be thought of as a mirror held up to reflect an organisation over a given period. Leaders can use this to their advantage by picking up, acting on, and following up on the things the mirror reveals and perhaps comparing them to earlier images. How clear the picture is depends on how well the evaluation criteria and objectives have been set. This is an ever more demanding task as environments grow increasingly complex. In terms of leading employees, the mirror can serve two purposes. First, a leader needs to be visible. The magic mirror of evaluation will show just how, where, and when a leader is visible to employees. Second, the mirror provides leaders with opportunities to show and communicate the overall picture and its development back to the organisation. Naturally, evaluation is not the only tool that can do this, and some leaders do not need to rely on different phases of an evaluation to communicate efficiently with their organisations. However, we argue evaluation is often needlessly overlooked for this purpose in the search for more elaborate and impressive tools.

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## CHAPTER 11

# Leadership That Drives Social Change With Performance Measures

TOMI RAJALA

## Takeaways for Leading Change

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This chapter highlights that performance measures can be an integral part of problem-solving and that problem-solving drives social change. Problem-solving as a leadership practice is crucial because it signals to the organisation what is important to the leader. Identified problems represent issues that need to be fixed. The chosen solutions determine which actions are undertaken. In a similar fashion, performance measures used for problem-solving reveal something about the leaders and their values. By using certain performance measures for problem-solving, a leader signals what is valuable and what is not. Performance measures are yardsticks that define what type of performance is appreciated and what is not. This indicates that values cannot be detached from performance measures and problem-solving. Performance measures can be used at every step of the problem-solving process. The choice of measures to be used at each step is crucial. This choice can either support or hinder the social change leaders are attempting to engender. The implication is that those who aim to exercise leadership in any form must consider what implementing and ignoring certain performance measures signals to members of the organisation and other stakeholders. It is also important to understand how leaders try to drive social change by shaping perceptions through the use of certain measures in their rhetoric and writings addressing problems.

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It has been claimed “that problems drive change more effectively than opportunities do” (Greve, 2008, p. 200). This notion is especially true in complex environments, where those in leadership roles frequently deal with wicked problems. Because wicked problems often cannot be solved, considerable effort goes into ongoing problem-solving processes and the pursuit of temporal solutions. Complex environments highlight the importance of problem-solving. A large and accessible information base becomes very valuable when people are constantly trying to keep up with wicked problems. These cannot be tackled with simple information. Performance measures therefore take centre stage when versatile information bases are required for problem-solving purposes.

Performance measures record how social change is occurring (cf. Schalock, 2001). Widely used indicators, such as greenhouse gas emissions, obesity, life expectancy, household income, income inequality, inflation, unemployment rate, and economic growth are all examples of performance measures that record how social change occur (cf. Hatry, 2006). Because measures record social change, they are used to frame the problems and solutions we see in society. For example, unemployment statistics are performance measures which report the number of unemployed people. Leaders can use this measure when they suggest that a given number of unemployed people is a problem.

As a solution to the unemployment problem, a government may try to change the situation through interventions that help people obtain jobs. The intervention is the government’s solution to the problematic unemployment situation. The effects of the intervention can be measured to some extent via performance measures. The purpose of measuring these effects is to reveal whether or not the chosen intervention was effective. Because performance measures can reveal the effectiveness of solutions, these measures can determine the solutions people choose.

It is well known that problem-solving and the use of performance measures are leadership practises that drive social change (Yukl, 2013). However, it is less clear exactly how leadership, social change, performance measures, and problem-solving relate to each other as concepts (cf. Hunt, 1991). Precisely how leaders attempt to create social change by using performance measures in their problem-solving processes is also unclear (cf. Yukl, 2013). The purpose

of this chapter is to demonstrate leadership practises that utilise performance measures and problem-solving together. I ask the following three research questions:

1. What do leadership, social change, performance measurement, and problem-solving mean as concepts and how do these concepts relate to each other?
2. According to measurement handbook instructions written by leaders, what tasks in problem-solving are recommended to be done using performance measures?
3. How can leaders utilise performance measures for problem-solving in public speeches?

The first research question is answered in the next section by reviewing the existing literature. Section 3 provides a theoretical perspective on using performance measures in problem-solving. In section 4, the recommended tasks associated with performance measures in problem-solving are identified from leaders' instructions as given in measurement handbooks. Section 5 analyses the public speeches by Barack Obama and George W. Bush to demonstrate how performance measures are used in problem-solving embedded in public speeches. Section 6 presents the discussion and highlights the implications of this research. The chapter views leadership and change from an organisational perspective. This perspective was used because many social changes emerge and spread to wider society from organisations. The research setting allows clarification of the conceptual relationships between key concepts and identification of leadership practises utilising performance measures for problem-solving.

The purpose of this chapter is to demonstrate leadership practises that utilise performance measures and problem-solving together.

## Defining Leadership, Social Change, Performance Measurement, and Problem-Solving

There are many different definitions of leadership (Alvesson, 2017). In this chapter, leadership is defined as a relational leadership (Ropo, Salovaara, Sauer, & De Paoli, 2015) which anyone can exercise. Here, relational

leadership is also understood as an influence process through which social changes in behaviours emerge (cf. Uhl-Bien, 2006, p. 665). According to this definition, leadership involves striving to influence social change. Influence refers to a force that person X exerts on person Y to change the latter's behaviour (cf. French & Raven, 1959). This force can be direct or indirect (Yukl, 2013). Direct leadership requires immediate contact between those who lead and those who are being led. In indirect leadership, people are influenced even though there is no direct contact between those who lead and those who are being led (Jensen & Overman, 2003). This study concentrates on both indirect and direct leadership practises that utilise performance measures for problem-solving.

Leaders can influence the behaviours of people working in organisations indirectly by making decisions about, for example, competitive strategy, organisational structure, or management programmes (Yukl, 2013). Instructions in measurement handbooks, which are examined in this chapter, are part of management programs that attempt to change organisational behaviour. These instructions are a form of indirect leadership because the writers of these instructions are not directly in contact with those who read the instructions. Instead, the writers operate through written instructions and the instructions are the medium through which people are influenced. The people who are being led are involved directly with the handbook instructions but not with the leaders.

A leader's direct influence can be divided into three categories: task-oriented, relations-oriented, and change-oriented behaviours. Task-oriented behaviours are aimed at improving efficiency and process reliability of specific tasks in the organisation. Relations-oriented behaviours focus on human relations and human resources within the organisation. Change-oriented behaviours concentrate on advancing "innovation and adaptation to the external environment" (Yukl, 2013, p. 281). This chapter focuses on the latter, by examining how leaders utilise performance measures for problem-solving in public speeches.

Social change, as defined by Vago (1980), is a process of alterations in social phenomena. In this chapter, social change is understood as any alteration in organisational performance. In general, performance is a socially constructed concept with no objective description. Every person simply defines

performance in their own way (Neely, 2007). In this chapter, performance refers simultaneously to human action and the result of this action (cf. Neely, 2002). Performance is merely human behaviour in the organisational context and the outcomes of this behaviour. This can be seen in both the organisation and the surrounding environment (Schalock, 2001). Performance measures track organisational performance. The research literature lists several types of performance that can take place in an organisation (Hatry, 2006). For the purpose of this chapter, it is not necessary to identify all types of performance that occur in an organisation. Instead, the focus here is on four types of organisational performance: leadership, written handbook instructions, performance measurement, and problem-solving. Because handbook instructions are the result of writing instructions, these instructions can be seen as performance (see the definition of performance used in this chapter).

A problem can be defined as a matter regarded as unwelcome or harmful. It is something needing to be dealt with and solved (Oxford English Dictionary, 2018). In the context of organisational performance, problems are associated with trouble in performance. Problems are solved through a problem-solving process (Davidson & Sternberg, 2003), and performance measures can facilitate the problem-solving process at each step (cf. Hatry, 2006). However, problems can also be solved without performance measures. Traditionally, the problem-solving process is described as a cycle consisting of the seven steps presented in Figure 1.

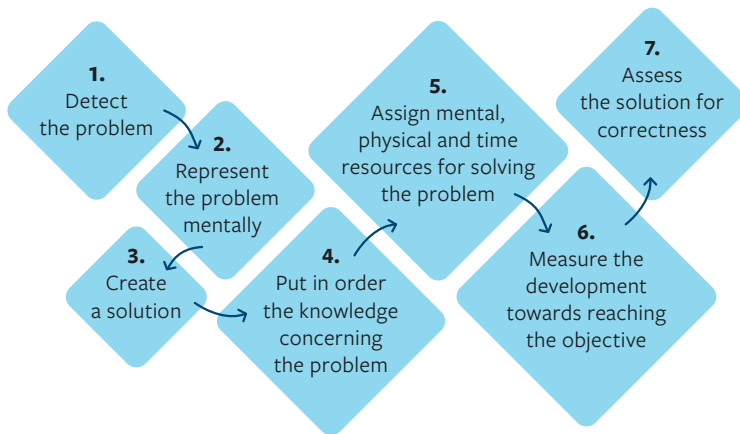


FIGURE 1. The problem-solving process (adopted from Davidson and Sternberg, 2003)

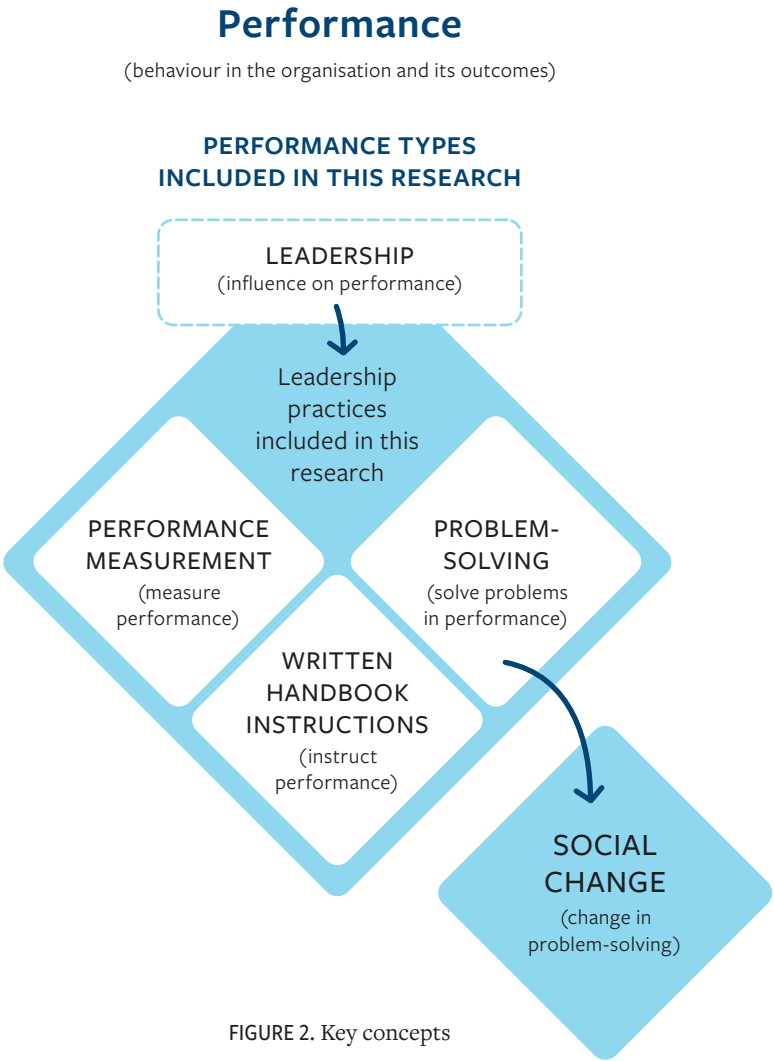


Figure 2 summarises the key concepts in this research and their inter-relationships. As the figure shows, social change is understood to necessitate a change in problem-solving, whereas problem-solving encompasses organisational behaviour that may or may not be changing. When the problem-solving changes, a social change occurs. If the problem-solving does not change, then social change in

problem-solving does not occur. The concept of performance comprises abovementioned performance types: leadership, written handbook instructions, performance measurement, and problem-solving. Leadership is understood as the process of influencing performance. Performance measurement indicates the act of measuring performance. Problem-solving is understood as the act of solving problems relating to performance. Written handbook instructions provide guidance to performance. Written handbook instructions, performance measurement, and problem-solving are not only performance. In this chapter, they are also understood as leadership practices.

## Using Performance Measures in Problem-Solving – A Theoretical Perspective on the Topic

This section presents a short review on the research literature describing uses of performance measures in problem-solving processes. The aim of this review is to highlight testable hypotheses for the empirical examination. The literature is used to demonstrate that performance measures can be used in each step of the problem-solving process.

According to Wagner (2014), problems can be recognised by judging performance against the expected standard of performance. In this process, performance measures are used to verify on a regular basis what is happening and what should be happening if performance standards are met. A substantial difference between what is going on and what should be going on reveals the existence of a problem. By presenting an unmet performance standard, measures provide a mental model of problematic performance. Presenting the problem mentally means describing “exactly what is happening, where it is happening, when is it happening, and to what extent it is happening” (Wagner, 2014, p. 160–161). Performance measures report what is happening, where and when it is happening, and to what extent it is happening (Hatry, 2006). Presenting the problem mentally also puts in order the knowledge concerning the problem. Performance measures also communicate the success of government programs and

services (Schalock, 2001). By doing so, they demonstrate the effectiveness of government solutions. Moreover, performance measures are often used to allocate resources to solutions in budgeting processes (Hatry, 2006). In summary, seven hypotheses can be deduced from the previous literature.

- Hypothesis 1: Performance measures are used to detect problems.
- Hypothesis 2: Performance measures are used to represent problems mentally.
- Hypothesis 3: Performance measures are used to create solutions for problems.
- Hypothesis 4: Performance measures are used to put in order the knowledge concerning the problem.
- Hypothesis 5: Performance measures are used to assign resources for solving the problem.
- Hypothesis 6: Performance measures are used to measure the development towards the objective
- Hypothesis 7: Performance measures are used to assess the solution for correctness

## Indirect Leadership via Handbook Instructions

This chapter uses leaders' instructions in measurement handbooks as research material. These instructions were analysed to investigate what problem-solving tasks are recommended to be done using performance measures. The measurement handbooks examined are listed in Table 1. The handbooks were chosen from public sector organisations operating in the United States and from two multinational companies. In the public sector context, performance measurement handbooks issued by national, state, and municipal governments were examined. The United States operates under a federal system of government, where the national government shares duties with state and municipal governments, such as counties. Measurement handbooks from the federal, state and municipal levels were used with an aim towards capturing empirical data from all three levels of government.

Measurement handbooks aim to influence how people behave at each step of the problem-solving process. Thus, the writers of these handbooks are exercising indirect leadership. This indirect leadership is aimed at convincing others that performance measures say something important about an organisation's performance. The handbooks suggest that people should pay attention to these measures in problem-solving. In general, the measurement handbooks provide guidelines on how to use information about performance (State of Washington, 2016). The purpose of these guidelines is to increase the ability of the organisation to use such measures. These handbooks have also been designed to assist with the implementation and use of performance measures, and they drive social change in organisations' problem-solving processes (cf. Ernst & Young [EY], 1995; Fairfax County, 2009). Measurement handbooks are also typically used to reinforce the willingness of the organisation to use performance measures (e.g. OPM, 2017).

Deductive content analysis was the research method utilised for assessing the handbooks. The text in the 10 handbooks listed in Table 1 was coded into seven categories. The seven coding categories emerged from the seven hypotheses presented in the literature review (see also Appendix 1). If text in the measurement handbooks corresponded to the coding category, then this text was coded accordingly. The coding categories aimed to address whether or not, according to the handbooks, performance measures are used in different problem-solving steps. The analysis revealed that all 10 measurement handbooks describe how performance measures should be used at all seven stages of the problem-solving process. Although the handbook instructions do not present problem-solving processes in the same manner as this chapter, the instructions indicate that measures can be used in each step of the problem-solving process. Next, a short overview is provided of the measurement handbook instructions concerning the problem-solving steps. During this overview, the hypotheses derived from the literature are tested using the coding framework presented in Appendix 1.

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Measurement handbooks aim to influence how people behave at each step of the problem-solving process.

MEASUREMENT HANDBOOK AUTHOR	YEAR OF PUBLICATION	TITLE OF THE HANDBOOK
Multnomah County	2007	Performance Measurement Manual FY 2009
Fairfax County	2009	A Manual for Performance Measurement – Fairfax County Measures Up
Kent County	2014	Performance Measurement Handbook for Managers.
State of Arizona	1998	Managing for Results
State of California	2007	Organizational Performance Management and Measurement – Strategic Planning and Performance Measurement Staff Training Handbook
State of Washington	2016	Performance Measure Guide
Office of Personnel Management (OPM)	2017	A Handbook for Measuring Employee Performance
Bonneville Power Administration (BPA)	1992	Quality Improvement Tools
EY	1995	The Ernst & Young Guide to Performance Measurement for Financial Institutions: Methods for Managing Business Results
PricewaterhouseCoopers (PWC)	2007	Guide to Key Performance Indicators

TABLE 1. The handbooks considered in the analysis

## What Tasks in Problem-Solving Are Recommended to be Done Using Performance Measures?

In the first step of problem-solving, a problem is detected by using performance measures. All the handbooks examined suggested that performance measures are used to *detect problems*. As stated in one handbook, performance measures simply point out problems in the current performance or state of affairs (Multnomah County, 2007, p. 5). The second step of the process is *representing the problem mentally by using performance measures*. All scrutinised handbooks demonstrate that performance measures are used to *represent the problem* in order to create mental models describing the problem (cf. Fairfax County, 2009, p. 13). Performance measures report what is happening, where and when it is happening, and to what extent it is happening (State of Washington, 2016, p. 1). For this reason, the measures describe how a problem in performance comes into existence. This description is a mental representation.

In the third step, performance measures provide solutions. According to leader instructions, performance measures reveal solutions, best practices, improvements, development opportunities, progress, and enhancements. By comparing an organisation with problems to another organisation without the same problems, one can find solutions to the problems (State of California, 2007). For example, benchmarking provides many solutions for an organisation seeking to improve its performance (Fairfax County, 2009). Benchmarking is a practice in which organisational performance is enhanced by comparing the organisation's activities against those of a similar organisation in order to discover the best practices that can be adopted in the organisation (State of Arizona, 1998).

In the fourth step of the problem-solving process, performance measures are used to *put in order the knowledge concerning the problem*. According to all the handbooks, performance measures structure the knowledge concerning the problem. By measuring the resources used, goods and services provided, and results over time (Multnomah County, 2007, p. 5), performance measures allow for arranging and

storing knowledge in a chronological manner. This chronological storage system enables comparisons over time, and this makes it possible to examine progress towards achieving organisational goals within a certain timeframe (Kent County, 2014).

In the fifth step, performance measures are used to *allocate resources* in budgeting to organisational activities, such as problem-solving. According to the examined handbooks, performance measures provide crucial information on how many resources different activities require, which makes them useful for budgeting (State of California, 2007). Next, performance measures are used to *measure progress towards the objective*. All the handbooks instructed the reader to use performance measures to track progress towards the organisation's objectives. Indeed, performance measurement gathers information regarding the kinds of activities that the organisation is undertaking and it addresses the effects of the organisation's activities (Fairfax County, 2009). By doing so, performance measurement reveals whether or not organisational goals are achieved (State of Arizona, 1998). In the final step of problem-solving, performance measures are used to assess the solution for correctness. Because performance measures report goal achievement, they also expose whether or not the organisation's solutions to previous problems were the correct ones. If objectives are achieved, the solutions are correct. If not, then new solutions are needed.

## Direct Leadership – Using the Right Performance Measures for Problem-Solving

The previous section examined indirect leadership in the form of measurement handbook instructions. This indirect leadership drives social change by advocating the use of performance measures in problem-solving processes. Performance measures and problem-solving were explained as conceptual tools utilised for indirect leadership by leaders. The handbook instructions offered a platform where these conceptual tools were used. In this section, the focus turns from indirect leadership to direct leadership

that utilises performance measures and problem-solving in speeches. Examining both indirect and direct leadership highlights how performance measures and problem-solving can be used in leadership practises.

Because performance measures can point out undesirable social changes (Schalock, 2001), they are often used in problem-solving where societal problems are described and social change is created. An illustrative example of this type of use is the following quotation taken from past United States President Barack Obama's (2016) speech to the United Nations General Assembly:

Because performance measures can point out undesirable social changes, they are often used in problem-solving where societal problems are described and social change is created.

American businesses have created now 15 million new jobs. After the recession, the top one percent of Americans were capturing more than 90 percent of income growth. But today, that's down to about half. Last year, poverty in this country fell at the fastest rate in nearly 50 years. And with further investment in infrastructure and early childhood education and basic research, I'm confident that such progress will continue.

The next consideration is whether or not Obama uses performance measures to:

1. Detect problems
2. Represent problems mentally
3. Create solutions for problems
4. Put in order the knowledge concerning the problem
5. Assign resources for solving the problem
6. Measure the development towards the objective
7. Assess the solution for correctness

The fact that “after the recession, the top one percent of Americans were capturing more than 90 percent of income growth” seems to be a problem according to President Obama. Obama conducts the first step

of problem-solving by using the information provided by performance measures to detect this problem. At the same time, Obama creates a mental model for the listener and executes the second step of problem-solving. This mental model describes how the top one percent of Americans are capturing more than 90 percent of income growth. This mental model is stored in Obama's speech, which puts in order the knowledge concerning the problem. Putting in order the knowledge concerning the problem is the fourth step of Obama's problem-solving.

In step three of the problem-solving process, Obama presents a solution to the problem by pointing out that "poverty in this country fell at the fastest rate in nearly 50 years" and that "with further investment in infrastructure and early childhood education and basic research ... such progress will continue". By proposing further investments, Obama is actually suggesting how resources should be allocated to solve the problem. Suggesting a resource allocation is step five in Obama's problem-solving process. Obama also points out that there were previous investments in infrastructure, early childhood education, and basic research by referring to "further investments". As such, Obama shows that his previous solutions have worked, because poverty in this country fell the previous year at the fastest rate in nearly 50 years. By demonstrating how poverty fell, Obama conducts the sixth step in the problem-solving process, tracking the progress towards his objectives. Finally, Obama uses measures of poverty to announce a budgeting proposal for the future; at the same time, he assesses his previous solutions against these poverty measures. The solution assessment is the seventh step in Obama's problem-solving process.

Obama uses performance measures in a highly effective way to identify a problem and a solution to this problem. By doing this, he is actually going through a problem-solving process in his speech. While solving the problem, Obama is also attempting to influence the audience. It appears that he is trying to persuade the audience to view income inequality as a problem. He also wants the audience to understand that this problem can be solved with further investments in infrastructure, education, and research. Again, Obama uses performance measures by pointing out how poverty has fallen in the country, thereby demonstrating that

investments have worked so far. Here, Obama seems to argue that the decrease in poverty is a positive social change and that this positive change should be sustained.

Overall, the above quotation is a textbook example of direct leadership behaviour that uses performance measures for problem-solving and to motivate other people to promote the change desired by the leader. Obama's own behaviour can encourage other people to use the same performance measures when they advocate for the same change as Obama. Next, I consider how past United States President George W. Bush conducted his problem-solving process when giving a speech on the financial crisis and economic recovery plan:

The government's top economic experts warn that without immediate action by Congress, America could slip into a financial panic, and a distressing scenario would unfold: More banks could fail, including some in your community. The stock market would drop even more, which would reduce the value of your retirement account. The value of your home could plummet. Foreclosures would rise dramatically. And if you own a business or a farm, you would find it harder and more expensive to get credit. More businesses would close their doors, and millions of Americans could lose their jobs... And ultimately, our country could experience a long and painful recession... In close consultation with Treasury Secretary Hank Paulson, Federal Reserve Chairman Ben Bernanke, and SEC Chairman Chris Cox, I announced a plan on Friday. First, the plan is big enough to solve a serious problem [i.e. the financial panic leading to financial crisis and recession]. Under our proposal, the federal government would put up to \$700 billion taxpayer dollars on the line to purchase troubled assets that are clogging the financial system. In the short term, this will free up banks to resume the flow of credit to American families and businesses. And this will help our economy grow... The federal government also continues to enforce laws and regulations protecting your money. The Treasury Department recently offered government insurance for money market mutual funds. And through the FDIC [Federal Deposit Insurance Corporation], every savings account, checking account, and certificate of deposit is insured by the federal government for up to \$100,000. The FDIC has been in existence for 75 years, and no one has ever lost a penny on an insured deposit – and this will not change.

Next, Bush's use of performance measures in each of the seven steps of the problem-solving is studied. In the quotation above, Bush uses economic experts and their performance measures as a source of information when he describes the financial crisis as a problem. By doing so, Bush completes step one in the problem-solving process. Bush also offers everyday examples to create a mental model of the problem, and while doing so, he indirectly refers to performance measures used by economists, such as stock market indexes, credit ratings, inflation, and unemployment statistics. This is step two in Bush's problem-solving process. Economists use economic forecasts as performance measures when they give warnings to society. Therefore, Bush utilises these forecasts and makes them understandable to a layperson. The everyday examples of problems embody how the knowledge is put in order in the speech. Putting knowledge in order is step four in Bush's problem-solving process.

As a solution, Bush provides a plan developed "in close consultation with" several people. The plan is the third step of the problem-solving process. Again, Bush does not use any precise performance measures in his rhetoric. Instead, he indicates that he has relied on the expertise of Paulson, Bernanke, and Cox, all of whom have economic forecasts at their disposal. However, it is unclear what precise performance measures Bush has used in crafting his plan. By mentioning the help of experts, Bush adds credibility to his problem-solving process. Bush also proposes resources for problem-solving by suggesting that \$700 billion dollars should be used to purchase troubled assets. Here, some measures tracking the troubled assets are used. The budget proposal is step five in Bush's problem-solving process.

Assigning measures to track the development is step six of the problem-solving process. To track future achievements, Bush states that the success of his plan will be seen in economic growth. Economic growth points to measures like gross domestic product (GDP) and gross national product (GNP), which will be used to assess the correctness of the solution, or in Bush's case, the success of his plan. Although Bush does not assess the correctness of his plan, he does assess one of the solutions included in his plan by evaluating how the insured deposits have worked in the past 75 years. By assessing this solution via performance measures, Bush conducts the final step of the problem-solving process.

## Discussion

This chapter has investigated direct leadership practices in which performance measures were used in problem-solving tasks. It also examined indirect leadership via measurement handbook instructions by asking what tasks in problem-solving are recommended to be done using performance measures. The aim of the study was to map out the problem-solving tasks in which performance measures could be used to serve leadership objectives. As the main finding, current leadership practices demonstrate that performance measures can be used to detect and represent problems, to put in order the knowledge relating to problems, to provide solutions and allocate resources, and to assess solutions and progress towards achieving goals. This finding contributes to previous performance measurement literature (cf. Neely, 2002) by identifying how performance measures can be used in problem-solving aimed at serving leadership purposes. By mapping out the opportunities to use performance measures in problem-solving, this research provides tools for leaders dealing with wicked problems.

The second major contribution is the conceptual model presented in Figure 1. This model provides conceptual clarity to the leadership literature (cf. Yukl, 2013). By showing how these concepts relate to each other and what separates them, this conceptual model clarifies the language used in current leadership and management literature. Such clarity will hopefully translate to a better understanding of the phenomena.

The chapter also demonstrated that the seven-step problem-solving process can be drastically different depending the agenda of the leader. Indeed, the two speeches by the two former United States presidents displayed significant differences with regard to problem-solving processes. The most substantial difference was that they perceived different problems and solutions and they used different methods to locate these problems and solutions. For Obama, the problem was income inequality whereas Bush's problem was the financial crisis. Obama represented the problem mentally by saying that "the top one percent of Americans were capturing more than 90 percent of income growth" while Bush described failing banks, expensive loans, and so on. Obama's solution was further

investments in infrastructure and Bush's solution was to buy the troubled assets clogging the financial system.

Regarding their methods, Bush based his speech on performance measures that forecast the future, whereas Obama relied on performance measures that looked at the past. Moreover, the presidents used different measures for detecting and representing problems, creating solutions, putting knowledge in order, allocating resources to problem-solving, tracking development, and assessing solutions. Obama and Bush used different measures because these measures were required to support

their public problem-solving performance. For example, if Obama had used GDP to demonstrate the income inequality problem, he would have looked irrational and incompetent to those who understand what GDP measures and does not measure. As a measure, GDP does not explain how wealth is divided among citizens. In fact, GDP measures the market value of all final goods and services produced in a certain period time within the examined country. If Obama had chosen

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Convincing leaders  
select convincing  
performance measures  
to back up their cases.

the wrong performance measures, he would have undermined his own performance at each step of the problem-solving process. For this reason, using measures such as GDP would not have benefitted Obama's cause. Instead, by using income inequality and poverty measures, Obama was able to carry out the problem-solving process in a way that supported his causes and values. In a similar fashion, Bush chose measures that supported his agenda and values. This indicates that performance measures can support a leader's cause or act against it. Convincing leaders select convincing performance measures to back up their cases.

As a limitation, the reader should note that the document sample used in this research was not statistically representative. The availability of handbooks restricted sample collection, and purposive sampling had to be adopted. Thus, the results of this study cannot be generalised to the whole government of the United States or governments in general. Moreover, they do not reflect how multinational companies usually see the tasks of performance measures in problem-solving processes.

Another limitation relates to the chosen speeches. The quotations from the speeches were used only to demonstrate how speeches can utilise performance measures for problem-solving. Empirical data was not used to determine how conventional it is to conduct problem-solving based on performance measures in speeches. For this reason, the reader should not generalise the findings of this research to all political speeches. Whether or not the chosen quotations represent a typical way of undertaking problem-solving in speeches remains uncertain. Future research could answer these questions through the collection of different kinds of empirical data. They might delve more deeply into how public and private sector actors use performance measures in their problem-solving processes. It would also be interesting to see whether or not problem-solving processes utilising performance measures actually lead to the social changes for which leaders are aiming.

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Appendix 1.

THE RESEARCH HYPOTHESES AS CODING CATEGORIES	THE STATEMENTS SEARCHED FROM THE HANDBOOKS OR PROBLEM-SOLVING TECHNIQUES SEARCHED FROM SPEECHES
1. Performance measures are used to detect problems	Performance measures are used to identify unsuccessful performance or problems, difficulties, complications, and issues in the performance.
2. Performance measures are used to represent problems mentally	A failure in performance can be seen in performance measures.
3. Performance measures are used to create solutions for problems	Performance measures offer solutions, best practices, improvements, development opportunities, progress, and enhancements.
4. Performance measures are used to put in order the knowledge concerning the problem	Performance measures record performance over time.
5. Performance measures are used to assign resources for solving the problem	Performance measures are used for budgeting purposes.
6. Performance measures are used to measure the development towards the objective	Performance measures track the progress towards goal achievement.
7. Performance measures are used to assess the solution for correctness	Performance measures tell whether or not the performance is achieving the organisational goals.

TABLE 2. The coding framework for the qualitative content analysis.

## CHAPTER 12

# Presidents, Institutions, and the Quest for Coherent Leadership

TAPIO RAUNIO

## Takeaways for Leading Change

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Comparing three semi-presidential regimes, the main argument of this chapter is that institutional design has a strong independent effect on leadership. Drawing on official documents and interview data with top-level civil servants and politicians, it underlines the importance of coordination mechanisms between the president and the prime minister. Such institutional arrangements facilitate effective policy-making and mitigate tensions between the two executives. Reflecting its more stable and regulated political system, Finland stands out with its strongly institutionalised coordination mechanisms and low level of intra-executive conflict. In Lithuania and Romania, on the other hand, each new president brings her own staff, personality and leadership style to the equation, with Romanian politics in particular characterised by high levels of tension between the president and the prime minister. The Lithuanian and Romanian cases indicate that absent of written rules or otherwise strong norms guiding intra-executive coordination, presidents enjoy more discretion in designing their own modes of operation. Under such circumstances presidents are more likely to use alternative channels of influence, such as public criticism of the cabinet or direct contacts with political parties, the legislature, or civil society stakeholders, and to intervene in questions falling under the competence of the government. This undermines coherent leadership and can even have serious consequences for regime stability, not least in the personality-centred politics commonly found in Central and East European countries and other more fragile democracies.

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Semi-presidentialism denotes a political system where a directly-selected president shares executive power with a prime minister (PM). Importantly, semi-presidentialism, which is the most common regime type in Europe, seems more prone to conflicts than parliamentarism or presidentialism. To be more specific, it is unique in the sense that conflicts can arise within the executive branch, between the president and the PM and the government. Such conflicts can be particularly damaging in terms of coherent leadership and policy-making. Largely influenced by Shugart and Carey (1992), studies have established that conflict between the two

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This chapter argues that coordination mechanisms between the president and the prime minister are of crucial importance in explaining presidential activism and intra-executive conflict.

executives is to be expected under two types of semi-presidentialism – in premier-presidential regimes (where the cabinet can only be dismissed by the parliament) and president-parliamentary regimes (where both the president and the parliament have the formal power to dismiss the cabinet). Intra-executive conflict is associated with negative outcomes such as cabinet instability (Sedelius & Ekman, 2010) and disruptive policy-making (Lazardeux, 2015). Research has furthermore established that conflict is more likely under cohabitation, defined as a situation where the president and the PM represent different political parties or ideological blocs (Protsyk, 2005; 2006; Sedelius & Mashtaler, 2013; Elgie, 2018).

A largely neglected variable in the comparative literature on intra-executive conflict, however, is the institutional instruments for coordinating policy and executive leadership between the president and the cabinet. In fact, we know very little about the extent to which coordination mechanisms between the two executives vary among semi-presidential countries, and more importantly, how such variation may influence the balance of power between the two chief executives. This chapter argues that coordination mechanisms between the president and the prime minister are of crucial importance in explaining presidential activism and intra-executive conflict. To be clear, it is not expected that such coordination

mechanisms are necessarily more important than key institutional variables such as presidential powers, cohabitation, or electoral and party system dynamics. But this chapter argues that typical intra-executive conflicts over policy, legislation and appointments may in fact be manifestations of coordination problems. Successful leadership in semi-presidential regimes requires regular dialogue between the president and the PM, particularly in policy areas where they share power. Apart from facilitating beneficial outcomes, effective coordination mechanisms reduce uncertainty so that the individuals are aware of and can anticipate each other's preferences and behaviour. In line with institutional theory, institutions can thus make a difference in that they induce actors otherwise driven by self-interest towards a "problem-solving" mode characterised by cooperation and search for mutually beneficial solutions (e.g., Scharpf, 1989; North, 1990). And in line with the "logic of appropriateness" (March & Olsen, 1989; 2006), stable and repeated coordination should also over time strengthen the socialisation effects of institutions whereby both executives, their offices, and other stakeholders become accustomed to certain "ways of doing things" and perceive regular coordination as the appropriate course of action.

Examining semi-presidentialism and intra-executive coordination is thus ultimately research about leadership. Students of political leadership normally emphasise that the leaders of political regimes should provide clear and sufficiently dynamic leadership, especially during more turbulent times. Communication plays an important role in modern leadership, with leaders expected to justify their positions and inform the electorate through a variety of channels (Helms, 2012; Rhodes & 't Hart, 2014; Elgie, 2018). Hence the chapter contributes to this edited volume through examining *political* leadership as exercised by presidents in three European countries. The comparative dimension enables us to draw lessons about both the causes and consequences of presidential behaviour and which institutional mechanisms facilitate stable leadership.

The selected cases are three premier-presidential countries: Finland, Lithuania and Romania. While the three countries have rather similar constitutional designs, they at the same time represent variation regarding presidential powers, level of intra-executive conflict, and political context. Finland is a long established democracy with a highly institutionalised

political system, where a recent constitutional reform resulted in a significant weakening of its historically strong presidency. Lithuania, on the contrary, is a young democracy with a largely personalised political culture but has generally functioned with few instances of severe intra-executive conflict. Romania, finally, has faced more severe transitional difficulties and has struggled with disruptive policy-making, widespread corruption and several instances of intense conflict between the president and the government. The constitutional powers of the president are somewhat stronger in Lithuania and Romania than in Finland.

Asking “do institutions matter”, this study will dig deeper into institutional design at the level of practices, routines and coordination instruments between the executives, that is, at a level where comparative research is currently lacking on systematic and empirical knowledge. By utilising interview data with key civil servants and politicians, and official documents, it is able to reach “behind the scenes” to explore the importance of coordination mechanisms and how they are associated with presidential activism and intra-executive conflict. The next part sets the theoretical framework by addressing the incentives and disincentives for conflict and cooperation between the president and the PM and by identifying coordination instruments relevant to the interaction between the two executives. The subsequent section presents case selection and data. The empirical analysis is structured around the presence or absence of coordination mechanisms identified in the theoretical section. The concluding discussion summarises and discusses briefly the implications of the findings.

## Theoretical Framework: (Dis)incentives for Cooperation and Coordination Mechanisms

Semi-presidential regimes encompass vast differences on the precise relationship between the cabinet and the president, also within the category of premier-presidential countries. There are countries where the president is merely a ceremonial head of state and the PM controls the policy-making process. Finland’s 2000 constitution, for example, provides the president

with formal prerogatives, particularly through co-leadership of foreign policy, that are just above those of a ceremonial figurehead. A potential risk with this model, however, is that a weak and marginalised, yet directly-elected, president can seek to compensate his or her limited powers with obtrusive behaviour, especially if the president's popularity outweighs his or her formal powers. The literature on semi-presidentialism is full of examples of such behaviour. When the government is clearly dominant, also the PM can feel no need for coordination beyond perhaps the president's office receiving information about governmental decisions and policies.

In general, the president and the PM should thus have stronger incentives to seek cooperation where there is a more balanced distribution of power between the government and the president and if the two executives share powers in particular policy areas. Under such power-sharing there are simply more issues subject to joint decision-making and thus also to intra-executive coordination. To be sure, there are also more possibilities for disagreement and conflict, which raise the need for regular and well-defined coordination in order to facilitate successful policy-making. The latter applies especially to foreign and security policies, including European Union (EU) affairs, issue areas where it is often emphasised that disunity at home should not undermine success abroad.

Regardless of the exact powers of presidents, presidential activism tends to be higher when the country is experiencing political turbulence, with low level of societal consensus or weak governments (e.g., Tavits, 2009). These considerations are particularly relevant for the younger democracies such as in Central and Eastern Europe, where surveys show high levels of public trust in the presidents but outright distrust in other political actors such as the PM and the parties. The presidents' greater popularity may be attributed to their limited powers. They have projected themselves to be above party politics, being somewhat elevated from the usual political quarrels. Prime ministers, on the contrary, experience the dilemma of exercising their power in areas of controversy, such as social and economic policies, thereby further eroding their popular support. Hence, presidents are normally constitutionally assigned to stand above party politics. The paradox, however, is that presidents may feel that their popularity does not translate into political influence. When seeking ways of converting their perceived

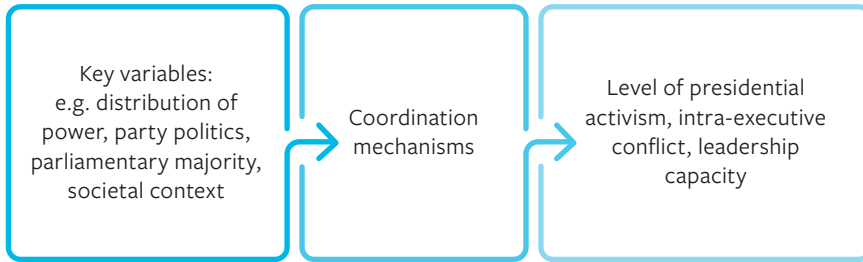


FIGURE 1. Coordination mechanisms and intra-executive conflict

prestige into actual power, they can publicly criticise the government by leaning on the popular mandate. Weak presidents thus seek to compensate their limited constitutional powers with more indirect channels of influence or obtrusive behaviour. And, as stated in the introductory section, tensions between the two executives are more likely under cohabitation.

Having discussed briefly the (dis)incentives for coordination between the president and the PM and the contextual factors influencing intra-executive cooperation, Figure 1 summarises the basic theoretical argument. It understands cooperation mechanisms as intervening variables positioned between key explanatory factors derived from previous literature on semi-presidentialism (the distribution of power between the president and the cabinet, the role of party politics, and the societal context) and the outcome – which is the level of presidential activism that influences intra-executive conflict and thereby also leadership capacity or performance. The more regular and institutionalised the coordination mechanisms are, the stronger their effect should be.

It is argued here that coordination mechanisms can make a genuine difference: individual office-holders are constrained by them, especially when the mechanisms have become more entrenched and recognised as legitimate by the actors involved. In contrast, when coordination instruments do not exist or are weak, then both executives have more freedom of manoeuvre. Absent of a working constitutional division of labor and regular coordination, particularly the presidents are more likely to use alternative channels of influence – such as the strategy of “going public” or direct contacts with political parties, the legislature, or civil society

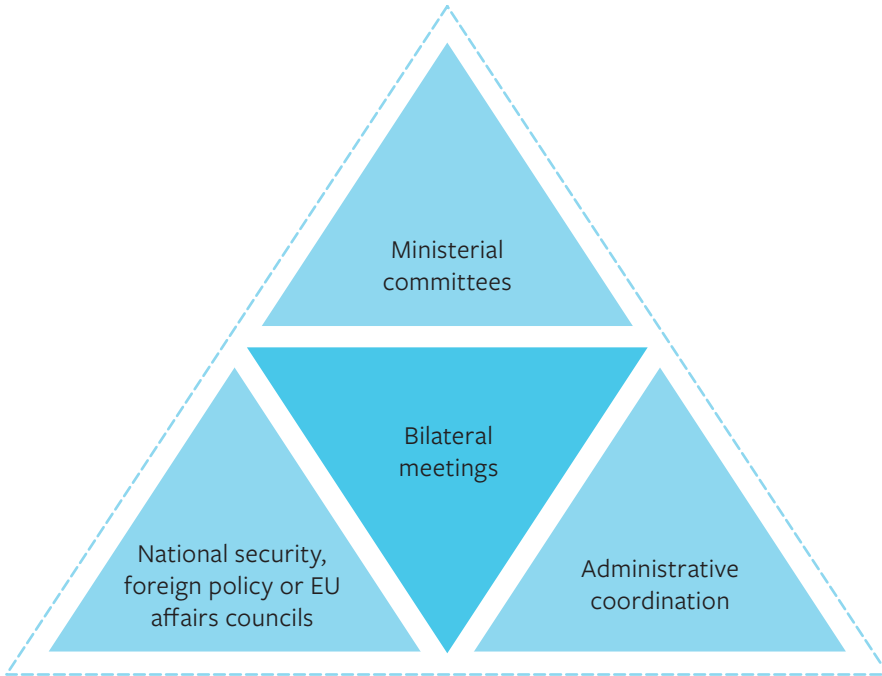


FIGURE 2. Coordination mechanisms between the president and the cabinet

stakeholders – and to intervene in questions falling under the competence of the government. Furthermore, ad hoc practices are likely to favour the side that, either because of constitutional division of power or through contextual factors, enjoys agenda-setting powers and can thus choose or at least strongly influence the levels and forms of coordination.

But how to define coordination mechanisms? Three levels of coordination are identified – bilateral (between the president the PM), collective (between the president and the government), and administrative (between the offices of the president and the prime minister and the ministries) – whilst also differentiating among policy areas. The coordination instruments are introduced one-by-one, identifying also their predicted roles in intra-executive coordination (Figure 2).

*Bilateral meetings between the president and prime minister.* Particular importance is assigned to confidential exchanges between the two leaders that form the core of intra-executive coordination – hence this category of

coordination mechanisms is placed at the centre of the pyramid in Figure 2. Regular talks between the president and the PM enable them to learn about each other's preferences, negotiation styles, and personalities. Such face-to-face contacts should ideally take place before the president meets the whole government or before either side meets foreign leaders or attends international or EU meetings. In this way, potentially sensitive issues can be discussed in private and even if no compromise is found, both leaders can agree on how to proceed with these matters. However, it is unlikely that laws would regulate such bilateral meetings. Hence, they can also be particularly vulnerable to break down after the election of new office-holders.

*Ministerial committees or joint councils between the president and the government.* As the literature on coalition governments shows, ministerial committees perform an important function in both cabinet decision-making and as a conflict-resolution mechanism (Müller & Strøm, 2000; Strøm, Müller, & Bergman, 2008). These ministerial committees usually bring together a sub-set of ministers from all coalition parties and they deal with specific issue areas such as economic policy or European policy. The powers and composition of the ministerial committees are typically regulated by laws or even by constitutions, with more detailed rules found in the government's rules of procedure. In policy areas where the president shares power with the government, mainly in foreign and security policy, such ministerial committees would enable both sides to keep track of developments and to exchange ideas before the formal decision-making stage. Various joint councils would on average have a more informal status and bring together the president and ministers to discuss specific societal issues such as education or economy. They could also take the form of periodic meetings between the whole government and the president that would focus perhaps mainly on topical issues.

*National security, foreign policy, or EU affairs councils.* External relations were identified as a policy area where directly-elected presidents not only have constitutional powers but where countries are expected to act with one voice. This applies particularly to security and defense policies, issue areas that are highly salient and where domestic consensus is appreciated (e.g. Raunio & Wagner, 2017). National security councils or equivalents often have a central role in defining and planning the countries' security and military

strategies. They can simultaneously facilitate intra-executive coordination, but who chairs such bodies can be a delicate question. Naturally, ministerial committees can also be established to examine foreign and security policy and indeed European matters. EU affairs pose particular challenges for coordination, especially as the development of the EU's Common Foreign and Security Policy (CFSP) means that national foreign and security policies – areas where presidents enjoy constitutional powers – are increasingly linked to European level policy processes (Raunio, 2012). Hence, whether the president is involved in or excluded from the national EU coordination system can have broader implications for leadership in foreign affairs.

*Coordination between civil servants of the offices of the prime minister and the president.* Moving to the administrative level, the interaction between the respective offices of the president and the PM can play an important role, especially regarding information exchange. Comparative literature suggests that the role of top-level administrative elites has become more important over the decades. Political leaders have typically two categories of staff working for them: civil servants that work for the state and political staff that come and go with individual office-holders. The staff at the prime minister's office oversees and coordinates activities in the ministries and perhaps also public sector agencies while handling central governmental communication. Particularly the political staff provides policy advice to the PM or the president, including in foreign and security policy, and can be key players in solving disputes between different branches of government (e.g. Mitchell, 2005; Eichbaum & Shaw, 2014; Yong & Hazell, 2014; Gherghina & Kopecký, 2016; Marland, Lewis, & Flanagan, 2017).

Regular coordination and exchange of information between the staffs of the prime minister and the president should facilitate successful cooperation between the two executives. However, the size and responsibilities of the president's staff can also be important variables. The budget of the president's office is normally determined by the annual national budget, and in semi-presidential countries, the total number of staff working for the president tends to be quite small. Presidents can compensate this with recruiting personnel that focus on specific policy areas, including those falling in the competence of the government. For example, a policy adviser in economy can provide crucial information to the president and can

form contacts with the relevant ministry and parliamentary committee. Furthermore, small but effective communication staff can be of substantial help in spreading the word about president's views and activities.

As theorised above, the existence of such coordination mechanisms should correlate with the level of presidential activism – both through public speeches (“going public”) or direct contacts with political parties, the legislature, or civil society stakeholders. That is, the less the president meets the PM or the government, the more there is space and need for direct contacts with other members of the cabinet, the parliament and its party groups, or the leaders of political parties, with the president building these contacts to “stay in the loop” of governmental activities and to influence decision-making in the cabinet or the legislature. This should also increase the probability of the president seeking to influence policy areas falling under the jurisdiction of the government, including through direct appeals to the public.

## Case Selection and Data

The three cases represent both variation and similarities. As explained in the introductory section, they represent different semi-presidential experiences: a stable political system and the considerable weakening of a historically strong presidency in Finland from the 1990s onwards; general intra-executive stability under a personalised political system in Lithuania; and strong presidential influence, personalised politics, and high institutional tensions in Romania.<sup>1</sup> The constitutional prerogatives of the president are stronger in Lithuania and Romania than in Finland, but in all three countries in foreign and security policy as well as in EU affairs the powers of the respective presidents are broadly similar, with foreign policy leadership shared between the president and the government. Lithuania

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1 Typically such conflicts have revolved around government formation, appointments, and clashes over government performance. For a closer inspection of intra-executive conflicts in the three countries, see Gallagher and Andrievici (2008), Krupavičius (2008; 2013); Raunio (2012), Gherghina (2013), and Elgie (2018).

and Romania also have the shared legacy of systemic communism, the subsequent transition to democracy and market economy in the 1990s, and the EU and NATO accession processes in the 2000s. Overall, intra-executive relations in Finland have been essentially harmonious whereas Lithuania and particularly Romania have witnessed serious conflicts between the PM and the president.

The analysis covers the period from the early 1990s to 2017. Data consists of official documents, secondary material such as politicians' memoirs and research literature, and particularly interview data with top-level civil servants and politicians with first-hand knowledge on president-cabinet relations. Having charted the existence of coordination mechanisms, the key objective of the interviews was to establish the actual role and importance of these institutions. The topic is obviously quite sensitive and the interviewees were willing to speak only under the condition of anonymity. A total of 10 persons were interviewed in Finland, 9 in Lithuania, and 11 in Romania. Many of them had experience of intra-executive coordination under two or more presidents. The positions of the interviewees include current and former high-level civil servants, counsellors and advisors in the offices of the president and the PM, speakers and members of parliaments, and ministers including one former prime minister.<sup>2</sup>

## Coordination Between the President and the Government

The comparison of coordination mechanisms reveals significant differences between the three countries (Table 1). Turning first to bilateral, confidential exchanges between the two leaders, in Finland the system has remained the same ever since the new constitution entered into force in 2000. The

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2 For reasons of space the official documents or the interviewed persons are not listed. The official documents mainly consisted of the respective constitutions and relevant laws, as well as governments' rules of procedure and other documents about intra-executive coordination. The full list of research material is available from the author.

president meets the PM essentially on a weekly basis, on Fridays before the plenary of the government and a potential meeting of the Ministerial Committee on Foreign and Security Policy. These bilateral meetings are very short, lasting normally at most half an hour. While not based any law or decree, the meetings have become an established practice not dependent on individual office-holders. In Lithuania and Romania, on the other hand, much depends on the party-political context and the presidents that have the initiative regarding such meetings. In Lithuania the presidents have by and large met prime ministers regularly, but presidents have also opted not to have such bilateral talks. For example, current President Dalia Grybauskaitė has met the PM almost weekly, but for six months in 2016 there were no regular meetings with the PM. Also during the presidencies of Algirdas Brazauskas and Valdas Adamkus the regularity of meetings varied. In Romania there is no such institutionalised practice: instead, there are meetings or phone calls on various topics when the need arises, with such interaction smoother and more active when the president and the PM share the same political affiliation (for example Nicolae Văcăroiu and Ion Iliescu, Victor Ciorbea and Emil Constantinescu, and Emil Boc and Traian Băsescu).

In Finland the president meets also the foreign minister on a weekly basis, but not other ministers with the exception of those government plenaries chaired by the president. This is logical given that the president has no competence in domestic policy. In Lithuania each president and particularly their staff have in turn been in active contact with the cabinet ministers and their ministries. The size of the president's office may be small, but, interestingly, the staff of each Lithuanian president has comprised mainly policy advisers in areas falling under the competence of the government – including social policy, economic policy, education, culture, religion etc. With the help of these advisors, successive presidents have actively formed ties with not just individual ministers and ministries but also with political parties, the speakers, party groups and individual deputies of Seimas and civil society stakeholders. Such behaviour is driven by policy-seeking logic, as the Lithuanian president can in the end achieve very little alone. Largely the same applies to Romania, where each president has utilised various channels to influence government decision-making, from ties to political parties and civil society stakeholders to addressing the legislature. The size

	YES/NO			LEGAL STATUS			CHANGE OVER TIME/REMARKS		
	FIN	LIT	ROM	FIN	LIT	ROM	FIN	LIT	ROM
Bilateral meetings, president-PM	Yes	Yes	Yes, in relation to sensitive issues	No	No	No	Stable	Usually regular, dependent on office-holders	Dependent on office-holders
Bilateral meetings, president-cabinet ministers	Yes	Yes	Yes, in relation to sensitive issues	No	No	No	Stable, with the president meeting the foreign minister almost every week	Variation, depending on office-holders	
Joint councils or similar, president-government	No	No	No	No	No	No		Some existed during Brazauskas and Adamkus	No
Ministerial committees where president is represented	Yes	No	No	Yes	No	No	Stable	No	No
National security councils or equivalent where president and government are represented	No	Yes	Yes	No	Yes, defined by constitution and law		The ministerial committee on foreign and security policy can be considered to perform this role	No	No
Coordination between civil servants of the president and the PM	Yes	Yes	Yes, limited and usually for formal/technical and specific issues	No	No	No	Regular exchange of information	"Business relations" type	No
Coordination between president and political parties/ ruling coalition	No	Yes	Yes	No	No	Yes, defined by constitution	No	Varies depending on parliamentary majority and the party-political situation	

TABLE 1. Intra-executive coordination mechanisms in Finland, Lithuania and Romania

of the president's office is considerably larger than in Finland or Lithuania, and the advisors to the president cover essentially all policy sectors, including economic policy. It appears that in Romania the links between the president and his political party remain much stronger during the presidency than in Finland or Lithuania (Gherghina, Iancu, & Soare, 2016). An interesting feature is presidential speeches in the parliament. They have become more numerous over time and can be considered as an agenda-

setting device, with the president presenting his vision about the most important societal questions. Such vision is more likely to be implemented if the president has a friendly majority in the legislature, whereas under cohabitation the president criticizes governmental decisions and tries to promote his own views on how Romania should be governed.<sup>3</sup>

None of the countries employ more permanent joint councils that would bring together the president and members of the government. Finland is the only country utilising ministerial committees, with the president chairing the Ministerial Committee on Foreign and Security Policy. Meeting regularly, the ministerial committee performs an important function in the co-leadership of foreign and security policy between the president and the cabinet. The Finnish ministerial committee can also in a sense be perceived as a national security council, although without the presence of representatives of armed forces. In Lithuania the functions and competence of the State Defence Council are defined in the constitution and the Special Law on State Defence Council, and presidents Brazauskas and Adamkus made use of some joint councils. In Romania the president can chair those sessions of the full government where national security issues are on the agenda, but presidents have used this prerogative to a varying extent. As in Lithuania, there is a specific Supreme Council of National Defence (CSAT) that brings together the president and the PM. Finally, in all countries there is active coordination between the offices of the president and the prime minister, although such communication between civil servants appears least institutionalised in Romania.

The variation clearly correlates with both the level of presidential activism as well as with the intensity of intra-level conflict. It was hypothesised that absent of a working constitutional division of labour and established coordination, presidents are more likely to use alternative channels of influence – especially the strategy of “going public” or direct contacts with other political actors – and to intervene in questions falling under the

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3 The Romanian constitution (article 80.2.) stipulates that the president “mediates between the different branches of state power” as well as “between state and society.” On both cases of impeachment against President Băsescu in 2007 and 2012, it was argued that instead of “mediating” the president had too strongly influenced the work of the other state institutions.

competence of the government. Again the differences between the cases are significant. In Finland, the presidents have essentially never publicly criticised the government, not even during divided government. For example, when the social democratic President Tarja Halonen shared power with centre-right prime ministers from 2003 to 2012, she often emphasised different topics in her speeches, but even in case of open clashes, such as over appointments or representation in the European Council (see below), she refrained from publicly attacking the government. In Lithuania and Romania, on the other hand, presidents have not hesitated to “go public.” Lithuanian presidents have publicly questioned the legitimacy of governments, with President Adamkus even using two high-profile television speeches to force prime ministers Gediminas Vagnorius and Brazauskas to resign. In Romania, apart from addressing the legislature, presidents have directly attacked the prime ministers and criticised the governments and other state organs. In line with previous research on semi-presidentialism, such public criticism of the PM in Lithuania and Romania is considerably more pronounced during periods of cohabitation.

Presidents are also more likely to resort to direct contacts with political parties, the state administration, and civil society actors when they do not have friendly majorities in the parliament. Moreover, in all three countries, although definitely least in Finland, presidents have in their speeches underlined their position as leaders of the countries, distancing themselves from party politics and the political class (see also Gallagher & Andrievici, 2008; Krupavičius, 2008, 2013; Gherghina, 2013; Raunio & Sedelius, 2017).

Lack of rules in turn explains presidential “power grabs” in EU affairs. In all three countries the government and specifically the PM is in charge of national European policy, with the competence of the respective presidents basically restricted to foreign and security policy – and thereby at least indirectly to CFSP. Following Lisbon Treaty (2009) each country is represented in the European Council either by the prime minister or the president, and in Finland, despite objections from Halonen, who had

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In Finland,  
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participated in the majority of the European Council meetings together with the PM, it was decided by the government that the PM would be representing Finland. According to a constitutional amendment from 2012 “The Prime Minister represents Finland on the European Council. Unless the Government exceptionally decides otherwise, the Prime Minister also represents Finland in other activities of the European Union requiring the participation of the highest level of State” (for more discussion, see Raunio, 2012).

In Lithuania, the constitution, secondary laws, or the rules about domestic EU coordination do not detail who should represent the country in the European Council. President Adamkus participated in those European Councils which featured foreign and security policy while the PM covered other matters. Often both executives would attend the summits. Grybauskaitė in turn participates in the European Council, even though constitutional provisions about division of labor clearly suggest that the PM should represent Lithuania. Overall, her influence appears quite strong in EU and economic affairs, partly because Grybauskaitė had served previously as the finance minister and as the Commissioner for Financial Programming and the Budget. According to one interview the prime ministers did not contest this arrangement: “The leader which enjoys public support can easily do such things ad hoc, therefore it was possible to establish certain practices without any legal documents – just like with attendance of the meetings of the European Council.” The lack of contestation was aided by the weakness of the government as PM Andrius Kubilius needed presidential support for the austerity measures (Raunio & Sedelius, 2017). In Romania it is also the president that attends the summits of the European Council, with the PM only travelling to the meetings upon delegation by the president. Following a major conflict between PM Victor Ponta and President Băsescu in 2012, the Constitutional Court confirmed that the president represents Romania in the European Council.

Overall, ad hoc practices facilitate presidential influence. Lithuanian and Romanian presidents also have the power of initiative regarding cooperation, with forms and levels of intra-executive coordination essentially always determined by the president. For example, while joint councils or ministerial committees might facilitate better coordination,

presidents do not need such bodies. As one interviewee from Lithuania put it: “Presidents that have enough powers do not create such councils, they do not need such kind of institutions, they just arrange ad hoc meetings despite the fact that it is not foreseen in any law.” Coordination is clearly most institutionalised in foreign and security policy, including between foreign ministries and the president’s office. Lithuania and Romania utilise specific national security councils whereas Finland has a ministerial committee on security policy. Such bodies facilitate confidential exchange of information between the two executives, and the interviews in general confirm that even when the president and the PM disagree about domestic matters, particular attention is paid to ensuring that the countries speak with one voice in international negotiations.<sup>4</sup>

The results also provide evidence of considerable stability as initially adopted practices have become the standard or appropriate course of action. Reflecting its more stable and regulated political system, Finland stands out with its strongly institutionalised coordination mechanisms. In Lithuania and Romania, on the other hand, each new president brings her own staff, personality and leadership style to the equation. When both countries adopted semi-presidential constitutions, it was for various reasons not perceived important or legitimate to establish coordination mechanisms between the executives. And as the analysis suggests, presidents may well benefit from such absence of regular cooperation.

## Discussion

This chapter has contributed to the literature on semi-presidentialism and political leadership through paying attention to coordination mechanisms between the president and the government. The results may not be altogether surprising but they are logical: the more institutionalised

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4 However, clashes over security policy can still occur. In 2006 the Romanian PM Tariceanu announced publicly that Romanian troops would withdraw from Afghanistan. President Băsescu disagreed and CSAT did not follow Tariceanu’s recommendation. As a result, the government had to comply with the decision of CSAT (Gherghina & Miscoiu, 2013).

and regular cooperation between the two executives is, the less we find presidential activism and thereby also intra-executive conflict. The absence of coordination in turn produces more tensions and opens the door for presidential activism, not least through public criticism of the cabinet and direct contacts to political parties, the state administration, the legislature, and civil society actors.

At the same time one must exercise caution when drawing lessons from this study. It compared one stable democracy (Finland) with two younger, less institutionalised political regimes (Lithuania and Romania). Furthermore, one cannot exactly measure the importance of coordination mechanisms. For example, the transition to democracy and the broader modernisation of the society have proven difficult in Romania, with poor constitutional design contributing to the high level of intra-executive conflicts (Ghergina, 2015; Elgie, 2018). Yet, one can ask whether the presence of regular coordination mechanisms could have prevented the two impeachments of President Bănescu or the overall assertive presidential behaviour. Similarly one can reflect on how much the relatively smooth intra-executive relations in Finland result from the president meeting both the PM and the whole government almost every week.

The chapter also highlights the interplay between institutional mechanisms, political culture, and party politics. The semi-presidential regimes in Central and Eastern Europe are in general characterised by personality-centred political cultures coupled with low trust in parties and political institutions. This facilitates presidential activism irrespective of the party-political context and makes it possible for individual presidents to create non-constitutional institutions in their own favour. Both Lithuania and Romania have opted not to establish regular intra-executive coordination mechanisms, and this study suggests the need to explore whether the lack of coordination instruments and the observed behavioural patterns apply also to other countries in the region. Institutionalised coordination mechanisms may make politics more boring through reducing public confrontations between the two executives, but they also facilitate policy-making and coherent political leadership, outcomes that are clearly relevant for all semi-presidential countries.

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## CHAPTER 13

# Company Directors' Key Duties and Business Judgment Rule

JANNE RUOHONEN

## Takeaways for Leading Change

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Constant change and the complexity of the surrounding society affects both company decision-making and legal rules on company decision-making. Societal change creates challenging problems for companies. Versatile expertise and leadership is required in the boards of directors. From the point of view of company directors, new business models and new ways of dealing with problems lead to uncertainty both when it comes to business and when it comes to their legal duties. Directors must exercise duty of care in all their actions as members of the board, but in the normal course of business decisions must be taken quickly and without knowledge of all possible information and certainty what will happen in the future. This is why directors must have certain level of protection against liability for damages. Otherwise they would not have the courage to make the necessary decisions concerning investments, expansions of the business and risky new business strategies. Taking risks is a normal part of doing business. The shareholders benefit when directors have incentives to make complex decisions without fear of continuous threat of claims for damages. The business judgment rule has found its way also to EU countries. Directors are not held liable for the damages if the business decision has been based on adequate and appropriate processes and information. The ability to use various sources and information is one of the most important elements of the rule. Using information from diverse sources makes directors better equipped to adapt to changes in the business environment and society.

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Over the course of time the limited liability company (US) – or company limited by shares (UK) – has become globally the most significant form of doing business. Currently, there are millions of limited liability companies (LLCs) in Europe and more than 270 000 LLCs even in Finland.<sup>1</sup> An LLC may be public or private, and at national level the regulation of companies may be divided in two separate acts: The Public Companies Act and the Private Companies Act. The main difference between public and private companies is that shares of public companies can be offered to the general public. Private company share may not. The earliest models of the LLC can be found from Italy, from the 15th century Genoese Bank of Saint George, but the historical roots of modern LLCs lie in 17th century European chartered companies (Schybergson, 1964, p. 10–12; Toiviainen, 2008, p. 258–262). Based on common historical roots, there are many similarities between limited liability companies worldwide.

Companies are primarily regulated through national legislation. In the European Union, company law is only partially harmonised and harmonisation mainly concerns public companies. The *European Model Companies Act 2017* (EMCA 2017) was drafted by company law scholars from 22 EU countries. The EMCA is a collection of combined features of national company acts and *is not legally binding*. However, the EMCA offers a useful picture of the general principles of European company law, as it has taken into account many different approaches to company law issues. The EMCA could potentially be a tool for future European integration in the company law area. One target of the EMCA is to ensure that the legislative frame of European companies is ready for the challenges modern businesses face in the future (EMCA, 2017, p. 1). Successful company leadership requires new kind of expertise as the world and the business environment is changing rapidly. The board of directors (or corresponding) is compulsory in limited liability companies worldwide. It is responsible for the success of the company.

*The directors of the company* must have new kinds of leadership skills at company level – they must possess adequate expertise concerning legal and

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1 For information on company forms in Finland, see the Finnish Trade Register [www.prh.fi/en/kaupparekisteri.html](http://www.prh.fi/en/kaupparekisteri.html)

business matters and understand the wider background of their decisions in order to become effective leaders. Directors of the company must resolve increasingly *complex problems* concerning, for example, business strategy. This means societal challenges are inevitably reflected in the company decision-making level as well. New business models lead to uncertainty from a company directors' point of view when it comes to legal responsibilities.

The business decisions of directors must be taken carefully but quickly and without certainty of what will happen in the future. Otherwise they would not have the courage to make necessary and sometimes complex decisions. New dynamic environments are surrounded by uncertainties but the directors do not have a choice. They have to resolve problems according to valid laws and corporate governance codes.<sup>2</sup> For this reason, directors must have a certain level of protection against liability for damages.

The chapter describes the internationally widely recognised general principles of a LLC and outlines the key elements of directors' duties such as duty of care, skill and diligence and duty to promote the success of the company. Directors have liability for negligence. The aim of the chapter is also to clarify the contents of the so-called *business judgment rule*, a well-known rule in the USA and Europe and it is also called a "safe harbour" for directors. The rule stipulates that directors cannot be held liable for damages if a decision has been based on adequate and appropriate processes and information. The *perspective* of the article is judicial. The purpose of the article is not bound to any single national jurisdiction.

The chapter describes the internationally widely recognised general principles of a LLC and outlines the key elements of directors' duties such as duty of care, skill and diligence and duty to promote the success of the company.

2 Prior to the adoption of the Companies Act in 2006, UK companies were governed by common law principles (e.g., fiduciary duties). General duties have since been codified in the Act (French et al., 2016, p. 477–478).

## General Features of Limited Liability Companies

Before focusing on the actual duties of directors, one must understand the most important general features of a limited liability company. LLCs offer ways to divide business risks between several shareholders. There are several shared features in LLCs worldwide. An LLC has *legal personality* of its own and it is distinct from its shareholders. Normally a company must acquire legal personality upon registration on a national trade register. There are, however, variations concerning registration and legal personality even within the EU (EMCA, 2017, p. 27). In an LLC there is indeed shareholders' limited liability for the obligations of the company. *Shareholders are not liable* for the obligations of the company and personal assets of the shareholders are safe in case of company's insolvency. Shareholders can only lose the amount they have invested. There is little doubt this has been, and continues to be, the most important feature of an LLC – and the reason for its worldwide success as the most important form of doing business.

One of the most important features of an LLC is the *purpose* of the company, which is to generate profits for shareholders. In other words, the company's value must increase unless otherwise provided in the articles of association.<sup>3</sup> The purpose of the company can be changed but only by stating otherwise in the articles of association. It could be, for instance, charity work or producing services at a reasonable price for the shareholders. Ensuring company management is carried out with a long-term and sustainable view is also important (EMCA, 2017, s. 1.06, comments). The company should not simply aim at short-term quarterly profit-making – on the contrary, it is the task of directors to advance long run objectives. The purpose of the company intertwines with the fact that management must always exercise reasonable care, skill and

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3 See for example, the Companies Act 2006 (UK), Companies Act 2005 (Sweden), and Companies Act 2006 (Finland). Increasing value is considered the prime target in EMCA 2017, section 1.06. Some researchers have suggested that national Acts should state purpose of the company is “sustainable value within planetary boundaries” (See Sjäffell & Mähönen, 2014, p. 59).

diligence in all activities. This means that management is legally obliged to promote the purpose of the company.<sup>4</sup>

Typically the company must have share capital. Due to limited liability of the shareholders, *distributing assets* to shareholders is subject to limitations. The assets of a company may only be distributed by following procedures set out in law. The most common ways to distribute assets are yearly profit distribution (dividends) to shareholders and acquisition of the company's own shares. In normal situation it is of course possible to distribute the profits to the shareholders but some strict requirements (limitations) prevail (Bourne, 2016, p. 124–132; Dignam & Lowry, 2014, p. 120–123; Ferran & Look, 2014, p. 202–231; Ruohonen, 2015). These limitations are for example balance sheet and solvency tests that need to be carried out before profit payments. In other words, the company must have the assets to pay its debts to creditors first. Only after that it is possible to distribute assets to shareholders. This principle is called *creditor protection*.

A limited liability company is a legal person. This means that someone must act on behalf of the company.<sup>5</sup> Normally there are two vital and *compulsory organs* in an LLC: the general meeting and management, which can consist of board of directors, a managing director and supervisory board. Management of the company is separate from the shareholders. However, British law allows shareholders the freedom to organise governance of the company quite freely.<sup>6</sup> Typically shareholders of a limited liability company exercise their power of decision at the general meeting (that is, shareholders' meeting). There, decisions are mostly made by the majority of the votes cast. All shares normally carry the same rights. The principle of *equal treatment* is a typical principle in national companies' acts in Europe.

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4 The purpose of the company is balancing between short-term interests of current shareholders and long-term interests of future shareholders (Hannigan, 2016, p. 211).

5 For management of the company in UK legislation, see Companies Act (UK) 2006 and Bourne, (2016, p. 146–165).

6 Davies (2010, p. 12–13) emphasises there is considerable freedom to choose how the powers between shareholders and management are divided.

Usually (majority) shareholders have the right to elect the directors of the company (Pettet, 2001, p. 3).<sup>7</sup> The *composition of management* varies in different countries; there is no “common European standard”. For instance EU law does not contain binding rules concerning the management structure of companies. According to the EMCA, in a public company the board of directors should comprise of no fewer than three members. A private company should have at least one director (EMCA, 2017, p. 174–175). In so called one-tier system there must always be the *board of directors*. In a two-tier system there must be a management board, and also a supervisory board which supervises the management board and appoints the members of the board.<sup>8</sup> The *director* is a member of the board.<sup>9</sup> This article focuses on dealing with directors of the board. Board may consist of shareholders or it may be separate from the owners. In both cases, the directors of the company must undertake several *duties*.

## Key Duties of Directors

The board of directors is the most significant decision-making body in the LLC. The board is *collectively responsible* for the success of the company (Keya, 2016, p. 27). It is responsible for organising the administration of the company and the appropriate organisation of its operations. The board is also responsible for making the appropriate arrangements for control of company accounts and finances. This means the board must advance the purpose of the company, which is normally making profit for the benefit of company's shareholders. The board of directors must also supervise the managing director (CEO) of the company.

The duties and responsibilities of the directors are *surprisingly similar* in many EU countries – of course some differences also occur (Gerner-

7 For the management structure from shareholders' point of view, see Vahtera (2011, p. 209–226).

8 For example, in Germany the supervisory board is a compulsory organ which appoints the members of the board. In Finland and the UK, supervisory boards are voluntary. This article focuses on dealing with the one-tier system.

9 For management structures of companies in Europe, see EMCA (2017, p. 167–173).

Beuerle, Paech, & Schuster, 2013; EMCA, 2017, p. 221). There are many obligations imposed on directors by the law or common law principles to make sure they act fairly as representatives of the company. The director's position as a *fiduciary* means they must act on behalf of the company for proper purposes and without self-interest (Keya, 2016, p. 1, 25–26).

Many of a director's *legal duties* are recognised almost worldwide. First, the board must exercise reasonable care, skill and diligence (duty of care). This is the basis of the director's duties in all national companies' acts (EMCA, 2017, p. 204). As described in EMCA 9.03, duty of care refers to the care, skill and diligence that would be exercised by a reasonably diligent person with a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions carried out by the director in relation to the company, and b) the general knowledge, skill and experience that the director possesses.

Second, directors have the duty of loyalty. Simply put, this means directors must place the company's interests ahead of their own. Third, directors must to promote the success of the company as discussed earlier. Fourth, directors have the duty to avoid conflicts of interest. Directors need to avoid situations in which he or she would have interests which conflict or may conflict with the interests of the company (Davies & Worthington, 2016, p. 540–541). In addition, they have a duty to not accept benefits, a duty to exercise independent judgment and a duty not to act outside powers. Corporate governance codes of public companies (listed companies) might impose even more requirements for directors. In the UK Corporate Governance Code 2016 there are several other requirements concerning directors' duties.

As the world changes, company directors must resolve increasingly *complex problems* within their powers and duties. It is important to understand how directors should make decisions from a legal point of view – what are their legal duties in each case. In addition, it is vital that directors gather all the necessary facts concerning the decision they

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As the world changes, company directors must resolve increasingly complex problems within their powers and duties.

are about to make. Then the directors must look into the details with reasonable care, skill and diligence. Decision-making must be rational. The directors must take into account the changing business environment, complexity of the issue and uncertainties concerning the future changes. If they fail to do so, directors may sometimes be held liable for damages they have caused as members of the board if they are not able to prove themselves right.

The directors of the board and CEO can be held *personally liable* for damages they have caused. Sometimes the court might also identify as a director a person that actually acts in the capacity of director without being formally appointed to that post (*de facto* director) or a person whose instructions the board is accustomed to follow (shadow director).<sup>10</sup> Due to personal liability the directors of the board should always have the *necessary expertise*. For example according to the Corporate Governance Code (UK) “the board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively” (Corporate Governance Code UK, 2016, Section B.1.).

## Discussion

Often directors need to make risky and complex decisions, for example investment decisions. If directors were always personally liable for the damages caused by their decisions, they might be tempted to “play safe”. Due to this fact, by following a certain rule directors avoid harmful consequences for taking wrong decisions. This rule is called a *business judgment rule* (BJR), sometimes also described as a “safe harbour” for directors. The BJR is considered one of US corporate law’s central doctrines (Keya, 2016, p. 261). EMCA describes the BJR as follows:

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10 See e.g. EMCA (2016, Section 9.01). For a theoretical view of the business judgment rule, see Greenfield (2014, p. 217–240).

## EMCA 2017, Section 10.01 Directors' Liability

- (3) A director who makes a business judgement in good faith fulfils the duty [of care] under this Section if he or she:
- (a) is not interested in the subject of the business judgement;
  - (b) is informed with respect to the subject of the business judgement to the extent that the director or managing director reasonably believes to be appropriate under the circumstances;
  - (c) rationally believes that the business judgement is in the best interests of the company.<sup>11</sup>

Directors making business judgments are “interested” if they, for example, aim for personal financial benefit (self-dealing). A conflicted director does not make a business judgment in good faith and fulfil his duty of care. The director must also be informed of the contents of the business judgment and act in the best interests of the company.

The business judgment rule is an important part of the decision-making process as it concerns effectively all decisions made by directors (Savela, 2015, p. 94). Directors can be held responsible for damages they have caused as members of the board *if they fail to follow the business judgement rule*. Consequently, business judgment rule means that the *director is not liable* for the damages if the director has made the business decision based on adequate and appropriate processes and information concerning the matter. They must have acted in good faith (*bona fide*), believing that the interests of the company have been taken into account. This basically gives directors of the company freedom to make decisions within the limits described (Trask & DeGuire, 2013, p. 162–163).

It is required that director fulfils his or her *duty of care* and exercises reasonable care, skill and diligence in all his or her actions as a member of the board. All decisions must be made considering these circumstances and need to have a rational economic basis from the company's point of view (Mähönen & Villa, 2010, p. 460–461). All the *relevant information* available at the time

11 In the US, the BJR is almost identical (American Law Institute: Principles of Corporate Governance §4.01(c); EMCA, 2017, p. 223).

concerning for example the expansion of business must be collected before making decisions. However, the directors do not need to be able forecast every possible future event that might happen. This means that directors are not obliged to predict all the possible risks – but only the relevant ones.

In US corporate law, the business judgment rule is central to company law doctrine. The rule is also widely accepted in many EU countries.<sup>12</sup> American corporate law has had a significant influence on the company law of the European countries. In some EU countries the BJR is codified in some form, but there are not always separate provisions for this purpose.<sup>13</sup> Even if there are no specific provisions the BJR is taken into account when dealing with directors' decision making (Cebriá 2018). The contents of the rule is then derived from company law principles and liability provisions.

Especially in US *business judgments* are very rarely reviewed in court. Courts in some countries do not review board decisions on principle (Bainbridge, 2003). This means that the courts are not obligated to analyse whether directors have made the correct business decisions as such. Instead courts focus on analysing whether the decision was based on adequate information and appropriate process (Keya 2016, p. 216).<sup>14</sup> In other words, directors need to decide what information is essential for taking decisions and what is not. The rule is simple in itself but it is sometimes difficult to recognise what is essential information at the time of the decision to determine if the board's decision is within the boundaries of "normal". The directors' main duty is to find out as much as possible and carefully analyse the risks of the decision. *Risk analysis* is a crucial part of decision-making process. Both legal and market risks must be taken into account.

However, board decisions are almost always made under *uncertain circumstances*. The board must dare to do business and take new risks. If there

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12 For a detailed analysis on BJR provisions in EU countries, see Gerner-Beuerle et al. (2013, 108–118). In the UK the legal regulation of business judgment is not as clear as it is, for example, in the US (Kershaw, 2009, p. 428–430).

13 These countries are Germany, Portugal, Romania, Croatia and Greece (Gerner-Beuerle et al, 2013, p. 116–117).

14 The rule is not without exception as sometimes substantive reviews can be made in extreme circumstances (Rosenberg, 2006, p. 321–322).

was no protection against uncertainty, the board would be inclined to stick to old ways, which can sometimes be the riskiest option. It is therefore clear that under the business judgment rule company directors are not liable for unsuccessful business decisions. If the board has decided to invest into a new business sector and the venture is unsuccessful, directors are not liable for the damages if they have acted duly with the BJR principles – there is no room for “second-guessing” by the court (Keya, 2016, p. 262).

One of the most important matters concerning the business judgment rule is the *burden of proof*. The main rule is that directors are not obliged to prove they have conducted themselves diligently.<sup>15</sup> This means the plaintiff must first prove the board decision was taken against the BJR principle. If the plaintiff succeeds in this, the director must prove no damage was caused due to his or her actions. This is called an inversion of the burden of proof. This is why *documenting* the reasoning and material behind the decisions is very important.

The purpose of BJR is actually to protect directors against company's claims for damages. There are, however, some *significant restrictions* regarding business judgment rule (Bainbridge, 2000, p. 631–632). The scope of these restrictions varies across countries in the same way as the contents of business judgment rule. The BJR is not harmonised – and probably never will be. Some restrictions are nevertheless widely accepted in many judicial systems. Firstly, it does not apply as a safe harbor rule if the decision is against the law, for instance against the national companies act or criminal act. The rule does not apply to board decisions which breach the equal treatment of shareholders principle. Secondly, it does not protect directors who have acted deliberately against their duties or have been in gross negligence of their duties.

If there was no protection against uncertainty, the board would be inclined to stick to old ways, which can sometimes be the riskiest option.

15 See, *Cede&Co v. Technicolor Inc.* 634 A.2d 345 (Delaware Supreme Court 1993; Mähönen & Villa, 2015, p. 373). Germany and Spain are exceptions (see EMCA, 2017, p. 222).

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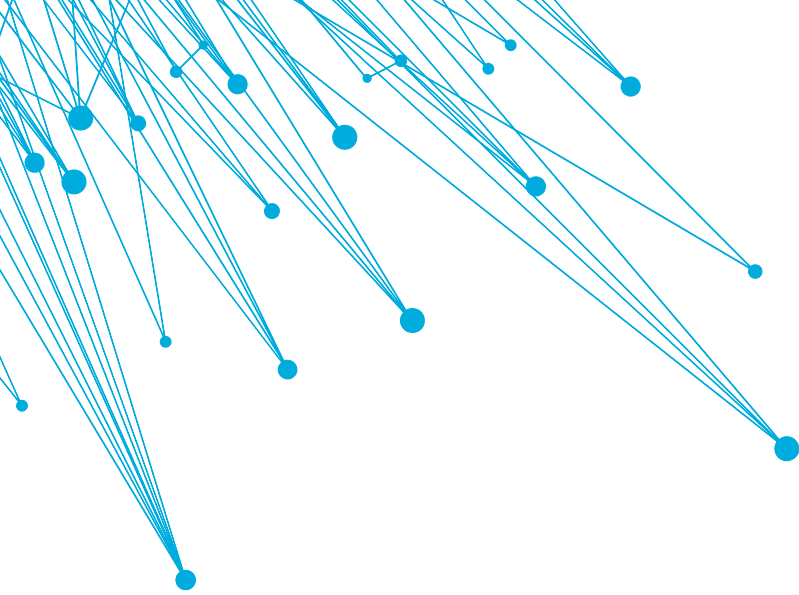
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PART III

# Dynamic Change





# Dynamic Change

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Change comes in many shapes and sizes. It may be small or large-scale, planned or emergent, evolutionary or revolutionary, and deep or broad. The Leadership for Change approach highlights the importance of developing conceptualisations of social change in order to enact meaningful change in current practices and systems. In this section, change processes are examined at and across several levels, in the context of a variety of complex societal challenges. Elina Närvänen, Malla Mattila and Nina Mesiranta's chapter analyses change in the context of food waste, which is one of the most eminent sustainability problems of our time. The tackling of this challenge requires change throughout the entire global food system. The chapter shows that the practices of consumer-citizens offer a convenient entry point for an analysis of such cross-level change processes. Abstract ideas can also be harnessed to generate change, as Erkki-Jussi Nylén argues. Nylén introduces the concept of ideological steering to approach the change-making potential of abstract concepts. These ideas are then deployed to examine whether and how circular economy thinking can change the current unsustainable economic model. Changes in the international system are examined by Marko Juutinen through a case study of BRICS, an informal group of states comprised of Brazil, Russia, India, China and South Africa. Juutinen analyses how BRICS challenge existing multilateral structures and whether this challenge amounts to a systemic and revolutionary change in the international system. Besides the transformations of the international system, megatrends provide another large-scale conceptualisation of change. The chapter by Raimo Voutilainen and Lasse Koskinen analyses the implications of a set of megatrends for the insurance and financial sector.



## CHAPTER 14

# Consumer-Citizens as Leaders of Change: The Case of Food Waste

ELINA NÄRVÄNEN, MALLA MATTILA & NINA MESIRANTA

## Takeaways for Leading Change

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We examine consumer-citizens and their roles in leading change in the context of food waste reduction. Food waste is one of the “wicked problems” facing society, businesses and consumers alike. It provides an interesting case for the LFC approach because it is a complex and dynamic issue where multiple actors and interests are at stake. In this chapter, we take the consumer-citizen’s perspective and explore the roles they can adopt regarding the issue of reducing food waste. The chapter provides an overview of consumer-citizenship and identifies a continuum of roles: choice-maker, carrier-of-practice, and leader of change. The characteristics of these roles are illustrated by drawing empirical insights from the Wastebusters research project examining consumer-citizens as active reducers of food waste. The continuum demonstrates that consumer-citizens’ food waste reduction involves an evolutionary change from making more sustainable purchasing decisions, to reconfiguring everyday life practices, and finally mobilising other consumers to join the movement. In their relational leadership roles, consumer-citizens also have the ability to affect the system as a whole. The chapter argues that in order to address the food waste issue, moving away from top-down, informational policies and expert-led campaigns toward participatory grassroots and bottom-up ways of engaging consumer-citizens is necessary.

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In this chapter, we focus on the issue of food waste, one of the biggest global sustainability challenges. Food waste can be described as a “wicked problem” (Reinecke & Ansari, 2016; Weber & Khademian, 2008) for many reasons. It is a complex issue involving a great paradox: as people keep throwing away edible food, others are suffering from starvation and hunger. Due to the complexity and inefficiency of the food system as a whole, surplus food is most often not consumed. It has been estimated that if we could cut the amount of food currently being lost or wasted by just one fourth, this amount would be sufficient to feed 870 million hungry people (FAO, 2017b). The environmental effects of food waste are also considerable: in Finland, the annual CO<sub>2</sub> emissions from household food waste are equivalent to the emissions of 100 000 cars (Lund, 2015). Food waste is a wicked problem because many stakeholders are involved, ranging from individual consumer households to retailers, manufacturers, farmers, politicians, NGOs and companies. Political awareness of the food waste issue is increasing. However, in the UN’s Goals of Sustainable Development (United Nations, 2017) and at the EU level (European Commission, 2017), interests relating to the issue are divergent and sometimes conflicting.

Various studies point to the role of households in producing food waste as significant; especially in developed countries (Gustavsson, Cederberg, Sonesson, van Otterdijk, & Meybeck, 2011). Consumer-citizens therefore can play a key role when looking for possible solutions to the problem. The consumer-citizen as a leader of change embraces sustainability and collective well-being in addition to or instead of maximising their self-interest in the market (Gabriel & Lang, 2015; Jacobsen, 2017). There are various examples of how consumer-citizens are taking leadership roles

in transforming their everyday lives and the lives of others by advocating more sustainable food consumption practices. This includes prevention and reduction of food waste. The purpose of this chapter is to describe and analyse the roles of consumer-citizens in food waste reduction. The role adopted by consumer-citizens is an example of bottom-up relational leadership where ultimately,

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consumer-citizens try to influence the social order (the existing food system) through transforming their own and others' consumption-related values, attitudes and behaviours.

The chapter draws insights from the Wastebusters research project examining consumer-citizens as active reducers of food waste. The three-year project (2016–2019) is carried out at the University of Tampere, Faculty of Management, and funded by Emil Aaltonen Foundation. Our findings are based on qualitative research materials regarding food waste reduction, including interviews (e.g. with consumers, food bloggers, and company representatives), an expert panel as well as documents about consumer food waste campaigns and food waste-related operating or business models in Finland and abroad.

We begin by introducing the sustainability challenge of food waste and the consumer-citizen concept. We then present a continuum of consumer-citizens' roles in the context of food waste reduction. The continuum is a typology of ideal types that can also overlap. Constructing a typology is a commonly used strategy in qualitative research to understand the different characteristics related to a complex phenomenon such as consumer-citizenship. Yet, the typology we present is not exhaustive and further roles or hybrids of different roles may exist in the real world. The section includes examples of initiatives and solutions that mobilise consumer-citizens to reduce food waste. The chapter concludes with a reflection on the key implications of the chapter in relation to the leadership for change approach and its main themes: a complex world, relational leadership, and dynamic change.

## Food Waste as a Sustainability Challenge

Food waste can be defined as “any food, and inedible parts of food, removed from the food supply chain to be recovered or disposed” (Östergren et al., 2014). The Food and Agriculture Organisation of the United Nations (FAO) has estimated that globally about one third of food produced for human nutrition is lost or wasted, piling up to about 1.3 billion tonnes of food per year (Gustavsson et al., 2011). In the EU, food waste is estimated

to be about 88 million tonnes per year; equivalent to 173 kilograms of food waste per person (Stenmarck, Jensen, Quested, & Moates, 2016). In developed countries, food waste occurs mostly at the consumer and retail level of the food system. In developing countries food is lost mostly at earlier stages, during post-harvest (Gustavsson et al., 2011).

Food waste creates environmental and economic, but also social and ethical concerns. From an environmental perspective, the carbon footprint of food waste is almost equal (87%) to global road transport emissions. If food waste was a country, it would rank third in greenhouse gas emissions (FAO, 2015). However, the size of carbon footprint varies depending on

where in the supply chain the food waste occurs as well as the type of food wasted. The later in the supply chain the food waste occurs, the greater carbon footprint. Reducing food waste in the later stages of food supply chain, namely at retailers and households, is especially impactful for the environment. Even though wasted meat, for example, constitutes less than five per cent of total food waste, it contributes to over 20% of the total carbon footprint of food waste (FAO, 2015). Economically, the direct financial costs of food waste amount to about USD 1 trillion each

Food waste creates  
 environmental  
 and economic, but  
 also social and  
 ethical concerns.

year. When factoring in the indirect environmental costs (the lost value of ecosystems) and social (the loss of well-being associated with natural resource degradation), the full costs reach USD 2.6 trillion globally each year (FAO, 2017a). It is also morally questionable to waste food while people suffer from hunger.

In the next section, we focus on the roles of consumer-citizens as potential leaders of change in the food waste issue. Even though the problem of food waste cannot be solved by any one actor alone, focusing on consumers is important because their preferences, attitudes and behaviours influence the food system. We utilise the concept of consumer-citizen to provide a view of the world where consumption and citizenship are not seen as opposites but as thoroughly inter-linked and overlapping. This unleashes the potential for consumer-citizens to lead the charge toward more sustainability and overall well-being.

## From Consumers to Consumer-Citizens

The development of the modern consumer society has led to a situation where the current levels of consumption are too high for the next generation to sustain. This has resulted in stark ecological consequences. Environmental issues have become increasingly visible in society. As consumers become more aware of the environmental effects of their actions, they feel increasing pressure to make changes in their consumption habits.

Consumer and citizen roles have traditionally been portrayed as opposites – consumers maximise self-interest in the market, consuming more and more in order to satisfy neverending needs created by consumer culture. Citizens, on the other hand, care about the wellbeing of others and try to behave morally, taking responsibility for their actions (Gabriel & Lang, 2015; Trentmann, 2007). Today these seemingly contradictory roles are increasingly intertwined. The hybrid term which refers to this configuration is *consumer-citizen* (or citizen-consumer) (Gabriel & Lang, 2015; Jacobsen, 2017; Johnston, 2008; Jubas, 2007).

There are two reasons for why consumer-citizens should be analysed as a hybrid. First, consumption has for a long time been conceptualised as more than rational utility maximisation. Through consumption, consumers build their identities and maintain social relationships. Consumption provides a language of symbols and meanings with which we communicate with others and understand the world around us (Moisander & Valtonen, 2006). As societal and personal values shift toward an emphasis on sustainability, consumption provides an important forum for people to express these values and meanings in their daily lives. In other words, you increasingly are what you eat, wear, drive and use. Second, there has been a shift in what activities are considered as political. Civil participation is moving beyond the formal domain of the state and voting behaviours. This points to a renaissance for civil society (Trentmann, 2007). Neoliberal ideology further emphasises responsabilising consumers – obligating them to enact their lives through independent and free consumption choices rather than as directed by the government or other central authority (Giesler & Veresiu, 2014).

There is a variety of examples of behaviours of consumer-citizens related to sustainable consumption and political consumerism. These

can be broadly positioned within three roles. The first role reflects the consumer-citizen's role as a choice-maker. This involves making different, more sustainable purchase decisions, such as, for example, buying fair trade or organic products (Prothero, McDonagh, & Dobscha, 2010, p. 153). In political consumerism, the marketplace is seen as a political arena where each consumer "votes" through buying or non-buying. Consumer boycotts punish companies for unsustainable behaviour, for example, Nestlé boycotts. "Buycotts", like "carrotmobs", reward companies for sustainable behaviour (Micheletti, 2003). This view, however, has been criticised as too narrow, because it focuses on purchasing and emphasises individual agency in changing the system (Southerton & Evans, 2017).

The second role focuses on consumer-citizens changing their everyday life consumption practices more holistically. Examples of behaviours include mending things instead of buying them new, buying and selling second-hand, or joining a slow food movement (Chaudhury & Albinsson, 2015; Southerton & Evans, 2017). This role draws from a practice theoretical understanding of consumers (Shove, 2010; Warde, 2014). Here, consumers are seen as (re)performing different practices and routines embedded in social and cultural contexts. The focus is extended from the consumer as "shopper" toward their everyday lives where things are appropriated in use and ultimately removed from use through disposal behaviours. All of these interlinked activities are highly dependent on social norms, values and related cultural meanings, practical, embodied knowledge, and the material world (Warde, 2014). From this perspective, the key to changing consumption behaviour lies not in individual choices made by consumers but rather in disrupting and dismantling unsustainable consumption practices and reassembling them in a more sustainable manner (Shove, 2010). For instance, when joining the slow food movement, consumer-citizens gradually start to amend their everyday practices and routines, while also improving their civic mindedness (Chaudhury & Albinsson, 2015).

The third role reflects consumer-citizens as leaders of change. This role draws from the new forms of political consumerism (Stolle & Micheletti, 2013). Concerned consumer-citizens may engage in different activities to try to change not only their own behaviour but also that of others and of society more broadly; for example, through utilising social media. The activities of

consumer-citizens who adopt this role no longer affect only their own lives, communities and social networks. As leaders of change, consumer-citizens commit increasing amounts of time and effort to mobilising other people, whether through establishing their own grassroots social movements or joining alternative lifestyle movements like voluntary simplicity and cultural jamming (Cherrier, 2009), or freeganism (Barnard, 2011).

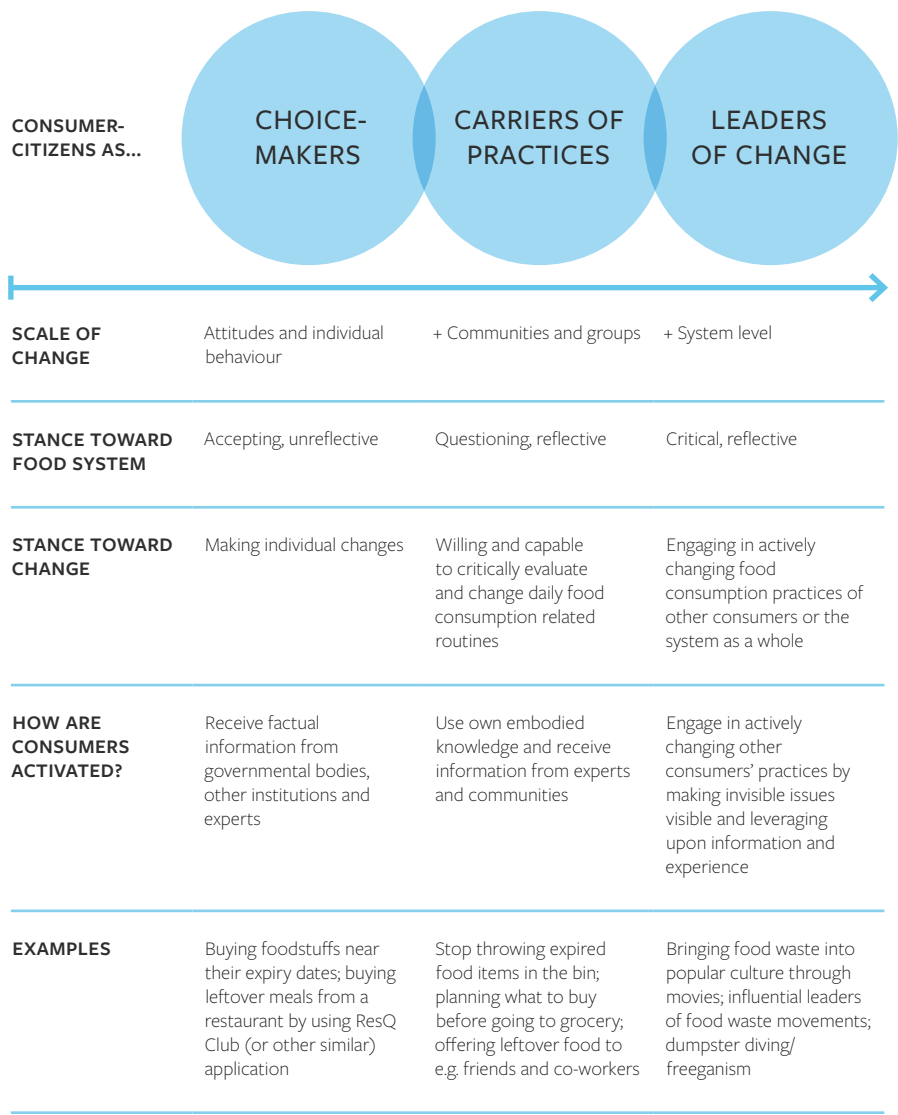
Using these concepts, we identify three roles of consumer-citizens: choice-makers, carriers of practices and leaders of change. These are illustrated in Figure 1. The circles are presented as overlapping because the latter roles also incorporate previous roles. The identified roles are ideal types in a typology constructed to make sense of a complex phenomenon. In the real world, they are not mutually exhaustive and may also overlap.

Next, the identified roles are elaborated in more detail, together with examples of initiatives and solutions that mobilise consumer-citizens to reduce food waste.

## Consumer-Citizens as Choice-Makers

The first role designates consumer-citizens as *choice-makers*. They are autonomic actors who pursue individual interests, but seek sustainability by making changes in their consumption decisions. They make discrete consumption choices related to food waste, such as choosing to buy foodstuffs near their expiry dates at discount (vs. choosing something with a longer expiry period) or by buying leftover meals at discount from restaurants through mobile applications (e.g. the ResQ Club service or similar).

Here, food waste reduction ultimately concerns individual sustainable consumption choices. Individual consumption behaviour is influenced by increased awareness of the issue of food waste. The consumer-citizen becomes aware of the problem of food waste and has a positive attitude toward reducing it, but at a very general level. The consumer-citizen as choice-maker participates in food waste reduction through purchasing acts that may help to reduce retailers' or restaurants' food waste. However, the consumer-citizen may not recognise the full complexity of the issue. Even if consumer-citizens try to avoid wasting food in their everyday



+ = includes earlier presented category/categories

FIGURE 1. Consumer-citizen continuum in reducing food waste

lives, as choice-makers they are not reflective of the everyday routines and practices of how food waste occurs. Hence, the choice-maker more or less accepts the food system as it is. Discrete acts do not affect the food system as a whole.

Many food waste related campaigns are based on the idea that giving (expert-led) information about food waste will lead to increased awareness of the issue and further to positive attitudes toward reducing food waste (see also Evans, Welch, & Swaffield, 2017). For instance, a Finnish “Waste week” campaign, organised annually by a non-governmental organisation, focuses on educating consumers about the effects of food waste (for other similar campaigns, see Aschemann-Witzel et al., 2017). It promotes action by organising events, disseminating information about food waste, and encouraging companies, public organisations and other parties to battle against food waste together with consumers. The problem with campaigns relying on attitude change is that there is a recognised attitude-behaviour gap particularly in sustainability issues – having the intention to do something does not necessarily lead to action (Shove, 2010). This issue is addressed through a practical and theoretical understanding of consumers underlying the second role of consumer-citizens discussed below.

## Consumer-Citizens as Carriers of Practices

The second role denotes consumer-citizens as *carriers of practices*. Here, consumers are seen as (re)performing different practices and routines in their everyday lives. Consumption is seen as broader than mere purchasing behaviour, and includes the phases of use and disposition. Individual consumption behaviours do not necessarily depend upon conscious and deliberate choice but instead, on participating in socially learnt practices depending on upon cultural meanings, values and understandings (Shove, 2010). From the perspective of this second role, the route to reducing consumer food waste is through consumers either dropping unsustainable practices, changing elements of existing practices or adopting new more sustainable practices (Phipps & Ozanne, 2017). Earlier research has found that being able to plan and manage

routine aspects of grocery shopping, cooking as well as food preservation, storage and display are central to managing food waste (Evans 2011, 2012; Närvänen, Mesiranta, & Hukkanen, 2016).

Consumer-citizens as carriers of practice are willing and able to evaluate critically and change their daily food consumption-related routines. They also question the (effective) functioning of the current food system. An example of dropping an unsustainable practice is when consumer-citizens stop throwing food items in the bin based on use-by and best-before dates. Instead, consumer-citizens begin utilising their senses such as sight, taste, and smell in assessing whether food products are still edible. Similarly, they can change their existing shopping routines by making plans (e.g. shopping lists) beforehand in order to avoid buying excess food. Existing food storage and cooking practices at home may also be modified in order to account for leftovers or use food items in their order of expiry. Different kitchen appliances such as blenders and freezers may be added to the existing array of practices to help consumers transform potential food waste into new dishes or to prolong the life of food items (Närvänen et al., 2016). Consumer-citizens are also capable of adopting completely new practices, such as starting to offer leftover food to house guests and/or bringing it to the office to share with co-workers.

As consumer-citizens adopt the aforementioned practices, the scale of change expands from their own behaviour to the communities and groups where they are members. Becoming more reflective of their behaviour at home and in other contexts where they encounter food waste may result in a questioning or at least reflective orientation toward the food system (Chaudhury & Albinsson, 2015). Consumer-citizens may for instance learn to distrust date labels or start purchasing fruit and vegetables that do not look perfect yet are perfectly edible. They may also share this practical knowledge with their family members and communities. For example, a Finnish company Paulig initiated the “Waste Challenge” campaign in 2016. It encouraged consumers to post their best tips for reducing food waste on social media. Experts and authorities are no longer seen as the only relevant source of information. Instead, consumer-citizens learn from each other and can themselves become experts on the issue. This increased civic-mindedness and expertise results in consumer-citizens becoming even more

involved in the issue and adopting the third identified role of consumer-citizens as leaders of change. We now discuss this role in more detail.

## Consumer-Citizens as Leaders of Change

The third role identifies consumer-citizens as *leaders of change*. In this role, consumer-citizens are personally concerned about the negative aspects of affluent consumer society as well as the environment. They are thus interested in the future welfare of other people, species, and the environment and capable of making a difference and leading change.

Consumer-citizens in this role engage in actively changing the food consumption practices of other consumers and/or the system as a whole. For instance, the Finnish “From waste to delicacy” blog campaign, initiated by several active Finnish food bloggers from May 2012 onwards, has encouraged other consumers to reduce their food waste. Posting tips, receipts, and visually appealing photos, the food bloggers have shown that, with a little effort and/or cooking knowledge, anyone can reduce household food waste and “make the world better” one meal at a time (Närvänen et al., 2016). The campaign has appealed primarily to young, working-age (female) consumers interested in cooking and ready to adopt novel, up-to-date and/or fashionable consumption patterns.

The scale of change within this role is related to the food system and society as a whole, thus expanding the sphere of social change compared to the first or second roles. The consumer-citizens who adopt the third role actively try to reveal the flaws of the current food system as well as other issues related to it. Examples of these types of actions include efforts to bring the food waste issue into popular culture. Movies like “Just eat it” (<http://www.foodwastemovie.com/>) and “Wasted – the Story of food Waste” (<https://www.wastedfilm.com/>) make invisible things visible and abstract things concrete. These documentaries show that incredible amounts of food items are thrown away or recalled from groceries for various reasons as well as point out the fact that large amount of food is never harvested due to standards set by retailers or the preferences of (wealthy) Western consumers.

Another example of consumer-citizens as active leaders of change are the influential leaders of grassroot food waste related movements and non-governmental organisations (NGOs). These include the Danish “Stop wasting Food” (<http://stopwastingfoodmovement.org/>) campaign by Selina Juul, the British “Feedback” (<https://feedbackglobal.org/>) and “Toast Ale” (<https://www.toastale.com/>) campaigns by Tristram Stuart, the Dutch “Taste Before You Waste” (<http://www.tastebeforeyouwaste.org/>) campaign by Luana Carretto, and the Finnish “From Waste to Taste” project (<http://waste2taste.com/>) by Johanna Kohvakka. These food waste movements/NGOs, usually starting as grassroots interest groups in the social media, are led by committed individuals keen to address the social problem of food waste. They try to increase awareness of food waste, educate consumers, and encourage the public to participate in the discussion and take action. They may also give tips regarding how to cook from leftovers, how to shop for groceries in a sensible manner and how to donate surplus food. The message comes from one consumer to another. In this way, consumers themselves encourage other consumers to be active in terms of not wasting their food.

There are currently several other NGOs that, with the help of a multitude of (consumer-citizen) volunteers, collect surplus food (from farmers, manufacturers, and retailers) and donate it to those in need. These include food banks as well as other related NGOs such as Hole Food Rescue (<http://www.holefoodrescue.org/>) in Teton County, Wyoming, U.S. and Food Angel (<http://www.foodangel.org.hk/en/>) in Hong Kong. Social media channels have also been used to share surplus food. Foodsharing.de (<https://foodsharing.de/>) is an online platform which enables consumers (together with farmers, manufacturers, and retailers) to offer and collect leftover food. Mobile applications have been developed for the purpose of enabling consumers to share their leftovers with other consumers living near them, such as the Finnish Neighbourfood (<https://neighbourfood.org/>).

Voluntary dumpster diving for food or freeganism can also be seen as an example of consumer-citizens as active change agents. Freegans engage in an alternative mode of consumption as they collect food items from supermarket garbage bins. They also operate as modern-day Robin Hoods as they snatch food from multinational retailers and give to those in need

– either using it themselves or donating it to charities. Freegan practices involve using the senses in assessing the edibility of food items, embodied knowledge and skills about optimal collection time of food items, what kinds of food products are to be picked from the bins, and how to prepare them (Edwards & Mercer, 2012). Engaging in the practice, consumers enact their ethical and political beliefs including the commitment to minimise food waste produced by the capitalist food system.

## Discussion

This chapter has examined the role of consumer-citizens as leaders of change in the context of food waste reduction. In reviewing literature on consumer-citizenship and drawing empirical insights from the Wastebusters research project, we have identified a continuum of roles regarding food waste reduction: choice-maker, carrier-of-practices, and leader of change. The roles emphasise the capability and willingness of consumers to recognise themselves as change agents regarding food waste reduction. However, the ways and means for achieving change varies among roles. In the first, change occurs through increased sharing of (usually expert-led) knowledge and consequently an increased awareness of the issue of food waste. In the two other roles, socially shared food waste reduction related choices and practices are incorporated so as to promote a more sustainable way of life, expanding from single households to communities and groups and the food system as a whole.

The continuum paints a positive picture of the ability of consumer-citizens to lead the change in solving wicked problems such as food waste. However, there are also some critical views that should be presented. First, consumption activities related to developing more sustainable ways of living can easily be undervalued as alternative and marginal lifestyles rather than becoming a universal moral

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consumerist model (Jacobsen, 2017). A key issue for making an impact is then how to scale sustainable consumption practices for the masses and normalise them. It must also be acknowledged that even though we are discussing global challenges, the abilities of consumer citizens to change their own and others' behaviour are not equal. These abilities depend on economic, social and cultural capital – i.e. the resources that consumer-citizens have available for them. Second, political consumerism in general fits the neoliberal political agenda of freeing regular political bodies from handling difficult issues and giving them instead for consumers to solve on their own (Evans et al., 2017; Giesler & Veresiu, 2014). The effectiveness of the activities of consumer-citizens, however, depends on infrastructural arrangements (Giesler & Veresiu, 2014; Jacobsen, 2017). This means that the activities of consumers-citizens to reduce food waste need to be situated within the broader context of the food system, aiming for shared and distributed responsibility between actors (Evans et al., 2017). The system has to be transformed so that it makes it possible for individual actors (consumers and companies alike) to drop unsustainable practices, modify existing practices, and adopt new, more sustainable, practices (Phipps & Ozanne, 2017).

Food waste, like any other wicked problem, is a systemic issue and cannot be solved by the activities of any one actor (Reinecke & Ansari, 2016). Instead, relational leadership that mobilises different actors is needed. Policies should also recognise the complexity of consumer behaviour in all its aspects rather than viewing consumers as choice-makers only (Southerton & Evans, 2017). Our continuum highlights that when attempting to involve consumers in making a change, grassroots oriented and consumer-driven initiatives are more likely to succeed than top-down, informational campaigns (cf. Barnett, Clarke, Cloke, & Malpass, 2008).

Finally, in discussing consumer-citizenship, it must be noted that both concepts (consumer and citizen) are continuously contested and unstable (Gabriel & Lang, 2015). There are various interests at play and many other actors in addition to consumer-citizens themselves (such as retailers, NGOs and politicians) are increasingly claiming to represent the consumer's interest and talking on their behalf. As argued by Trentmann (2007, p. 151), it may be better to approach citizen-consumers in terms of

“multiple identities that are only slowly (and unevenly and incompletely) fused into a universal subject”.

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## CHAPTER 15

# Can Abstract Ideas Generate Change? The Case of the Circular Economy

**ERKKI-JUSSI NYLÉN**

## Takeaways for Leading Change

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There is enthusiasm for transforming our economic model from a linear to a circular one. However, solving this wicked problem is a tall order: The socio-institutional environment in which this transformation must be driven is complex. There are also complexities, discrepancies, and conflicts of interest related to circular economy (CE) thinking itself. Even though the change towards the CE is complex and contradictory, the concept of the CE offers a good objective to pursue. CE thinking is a change provoking framework for actors to orient their action or practices. The promotion of the CE illustrates how outlining visions and identifying targets of change supports the change making process and provides guidelines for the actors involved. Nevertheless, the spread and internalisation of the concept remains critical for change making. If enough actors internalise, accept, and support the idea of change to some degree, it is quite probable that they will orient their actions accordingly. Analysing how an abstract concept such as the CE can – or cannot – generate change teaches us important lessons about how major changes can be realised.

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Transforming the current unsustainable economic model is perhaps the most complex problem of our time. The economy is overstepping the biophysical boundaries of the planet, and the way in which the economy is presently structured has caused grave environmental problems. However, enacting systemic change geared towards more sustainable alternatives is challenging. There are numerous actors and conflicting interests nested in the way our economies work, and such a change could tip the balance in terms of who loses and who gains. Allocation of resources, which lies at the heart of the economy, creates added complexity. The reallocation of resource flows has the potential to create distrust and cause major harm. For example, if food prices would rise significantly as a result of structural changes to the economy. The task of guiding it onto a sustainable path is a wicked problem – relentless, unconstructed, and cross-cutting.

This chapter discusses the circular economy (CE), which offers one possible way to solve the wicked problem of steering the economy

The purpose of this chapter is to analyse the change making that CE thinking provokes. The promotion of the CE illustrates how abstract ideas can lead to change: it shows the way in which it is possible to generate momentum for large-scale change in a complex contemporary society.

in a more sustainable direction. The underlining objective of the CE is to change the logic of how the economy works. The purpose of this chapter is to analyse the change making that CE thinking provokes. The promotion of the CE illustrates how abstract ideas can lead to change: it shows the way in which it is possible to generate momentum for large-scale change in a complex contemporary society. I use the notion of CE thinking to refer to the logic and change making objective upon which the CE model is based.

In following sections, I explain what the CE is and how it has become a topical concept. After that, I will discuss why making the transformation towards a CE is challenging in contemporary societies, and why it is difficult to change the old ways of doing things, even if they can be

seen as sub-optimal or unsustainable. I will then present the concept of ideological steering, which offers a more specific framework for analysing how an abstract idea such as the CE can generate change. Finally, I will discuss how the promotion of CE relates to the dynamics of change, the internal and external challenges of CE, and the implications for leadership for change.

## What is the Circular Economy?

To me, the circular economy is probably the next step in the evolution of environmental ecology, where the economy and the environment really embrace each other and change the world (Sitra, 2015).

The above statement reflects the abstract hopes and visions that shine through in the CE discourse. The citation is from Johanna Pirinen, Director of Corporate Responsibility of Konecranes, a large Finnish company. She participated in a panel discussion that discussed the opportunities and challenges of the CE in practice (Sitra, 2015). Her message is strong, hopeful and forward looking; but at the same time quite abstract. What does it actually mean for the economy and the environment to embrace each other? Furthermore, why should they embrace each other? The message is primarily about environmental problems and sustainability issues that derive from how our economy currently operates (Boulding, 1966; Steffen et al., 2015). Lately, the CE has been presented as a way to tackle these issues (e.g. Andrews, 2015).

On a general level, CE thinking concerns remodelling the economic system. The CE is the opposite of the currently prevailing model, the *linear economy*, which is based on the logic of “take-make-use-dispose”. This logic does not consider sufficiently the material boundaries of the planet. The linear economy rests on the assumption that there is plenty to “take” and always space for “disposal”. For the linear model to thrive, the material throughput requires continuous acceleration, which means growing amounts of “taking”, and, at the other end, growing amounts of “disposing” (Andrews, 2015; Jurgilevich et al., 2016; Webster, 2013).

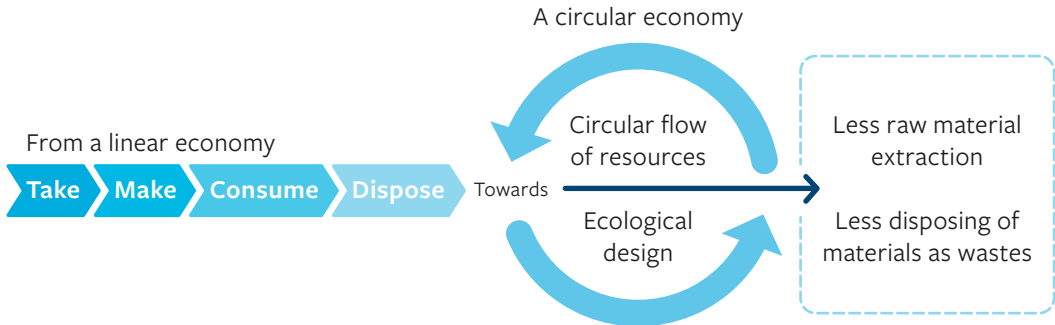


FIGURE 1. The CE aims to bend the logic of production and consumption from being open ended towards a closed loop

The aim of CE thinking is to move from open-ended material flows to closed material flows. This means resources that are brought into the production and consumption system – into the system of “making and using” – should stay there for as long as possible. This should result in much less raw material extraction and much less disposal of materials as waste. The practical means of achieving this objective derive from two thematic sets: the first is the ecological design of products and services. The second is the utilisation of end-of-life products and materials (i.e., sustainable waste policy). The change provoking setup of CE thinking is illustrated in Figure 1.

The scientific contributions to the CE stem from disciplines like environmental economics, ecological economics, industrial ecology, systems theory, performance economy, and cradle-to-cradle thinking (Andrews, 2015; Ghisellini, Cialani, & Ulgiati, 2015; Gregson, Crang, Fuller, & Holmes, 2015; Silva, Stocker, Mercieca, & Rosano, 2016; Webster, 2013). The shared factor of these schools of thought is their concern for the sustainability of the current model of production and consumption.

In this chapter, I will analyse the general mechanism of how an abstract concept like the CE can generate change. To do so, I will utilise the concept of ideological steering (Meadowcroft, 2007). Moreover, I concur with Femma Blomsma and Geraldine Brennan (2017) that the CE is an umbrella concept, which Paul Hirsch and Daniel Levin (1999, p. 200) define as

“a broad concept or idea used loosely to encompass and account for a set of diverse phenomena.” The CE as an umbrella concept acts as a framework that gathers other helpful and like minded concepts beneath it. Under the same umbrella-like, change making objective, tools and practices can together create greater momentum for change. Yet, as this chapter shows, change does not necessarily come easily.

## Creating Momentum for Societal Change

For an abstract idea to generate societal change, a set of divergent and influential actors need to mobilise behind it. Lately, CE thinking has been gaining such momentum across Europe. The idea has been promoted actively by the European Union (EU), with the European Commission presenting a CE policy package in 2015. The European Commission does not see the CE only as a large-scale structural change to guide the economy onto a sustainable track. It also views it from the standpoint of the competitive advantage, business opportunities, and job creation.

In Europe, the CE started to make its way into public discourse as a result of promotion by the Ellen MacArthur Foundation. Since its establishment in 2010, the foundation has probably been the most influential promoter of CE thinking (Hill, 2015). In Finland, Sitra, the Finnish Innovation Fund, has been similarly involved. Sitra is a public foundation supervised by the Finnish Parliament; its objective is to promote the economic prosperity and the future success of Finland (Sitra, 2017a). One of themes Sitra has chosen for its future-oriented work is the promotion of a “carbon-neutral circular economy” (Sitra, 2017b). Sitra promotes this through project funding and publishing reports presenting the CE in a positive light (e.g., Sitra, 2015; 2016). Creating momentum for change also involves organising seminars in which influential actors participate. When the EU published its CE policy package, Sitra held a seminar on the topic at the prestigious Finlandia Hall in Helsinki. Speeches were given by European Commission Vice-President Jyrki Katainen, Finnish Minister of Agriculture and Environment Kimmo Tiilikainen, Member of European Parliament Heidi Hautala, and co-president of the Club of Rome Anders Wijkman, to name a few (Sitra, 2017c).

Clearly, there is a buzz around the idea of the CE, but prestigious seminars and speeches from the upper echelons of society count for nothing unless change happens at the grassroots level. If CE thinking is to break through, the still-abstract CE discourse must translate into actual changes in the practices of production and consumption. The most obvious example of these practices is recycling. Other examples include waste utilisation, turning products into services, sharing economy practices, and ecological product design. The latter means that products should be designed to be updatable, easy to repair, and pollutant free. Furthermore, they should be reusable and/or minimize the amount of waste created during their life cycle. Digitalisation opens up opportunities for the creation of forums where actors can exchange goods. One of these is the ResQ Club (2017), which is a smart phone application that enables restaurants to offer their leftover meals at a discount to prevent food going to waste.

## Locked into the Old Ways of Doing Things

In this section, I will discuss the complex socio-institutional playing field where the transformation towards the CE is being driven. As the previous section showed, there is momentum for change. But when considering the agenda of CE thinking, the magnitude of the change required is huge. Changing the prevailing logic of how resources are moved and channelled in the economy is a tall order (cf. wicked problems). Such change is challenging for two reasons. First, the old ways of doing things – the incumbent technologies and practices – are likely resistant to change. Second, the socio-institutional environment where change is driven is complex.

The contemporary socio-institutional environment has become more complex and polycentric from the perspective of power distribution. This also relates to the transition “from government to governance.” In practice, this means that instead of control and coercion, administrations nowadays use subtler ways of steering society. This is because power has been distributed horizontally and vertically. This has led to increased complexity in the ways in which societal development is steered. The verticality of power distribution means the nation state is no longer the undisputed

nexus of power. Instead, the importance of the local and global has grown (for example, cities and the European Union). The horizontal distribution of power means that numerous institutions other than the nation state's administration and policymakers have a say on the direction in which societal development should be steered. These actors include corporations, interest groups, social movements, researchers, and think tanks, and they often have diverging interests. The polycentric power distribution and the differences of interests enhance the role of dependencies and networks between actors in the process of steering societal development. It is unlikely that a single actor can define the direction of development. Instead, the objectives of development and means to proceed must be negotiated by different actors. This is not an easy process, since change is not in the interests of all parties (Evans, 2012; Meadowcroft, 2007; Pierre, 2000; Pierre & Peters, 2000).

The concept of lock-in explains why the old ways of doing things enjoy huge advantages compared to radically new technologies and practices. It illustrates types of difficulties change makers are up against, as change must take place in grassroots level practices to steer production and consumption onto a sustainable track. First, incumbent practices and technologies are already familiar and tested. They might also have a pre-established infrastructure, a network of suppliers and customers and suitable regulations in place (Meadowcroft, 2009). Second, the parties behind incumbent sociotechnical practices have political leverage, as James Meadowcroft (2009, p. 329) notes:

Economic actors associated with established technologies are not enthusiastic about alternatives that would render their competencies obsolete. And since economic strength (investment, income, exports, employment) can be converted into political influence, they can place substantial hurdles in the path of nascent rivals.

The complex socio-institutional environment and advantages possessed by established practices suggest it is difficult to steer the development of contemporary society towards the type of change envisioned by CE thinking. There are many influential actors in contemporary societies who

have something at stake in societal development. While some actors are satisfied with the way things are and might directly or indirectly obstruct attempts to deviate from the status quo, others promote different ways of doing things. In addition, some actors might promote a quite specific type of development, for example, framing development in a way that directly benefits themselves. When talking about change of such a huge magnitude, there are bound to be parties from each type.

Overturning the old ways of doing things is hard even when incumbent technologies or practices are sub-optimal. When talking about societal change, there is no such a thing as a clean slate; change always unfolds against some sort of an inherited setup (Lähde, 2013). This inherited setup has a defining history. It is nevertheless possible to create momentum for large scale change in complex and polycentric societies. The following section introduces the concept of ideological steering, which shows how momentum for change can potentially produce results in complex contemporary societies.

## Ideological Steering: The Interplay Between the Concrete and the Broad

Ken Webster (2013), Head of Innovation at the Ellen MacArthur Foundation, has listed six temptations to be avoided when talking about the CE. The first one hits at the heart of James Meadowcroft's (2007, p. 311) concept of *ideological steering*:

■ Temptation#1 is to be too concrete. (Webster, 2013, p. 545)

According to Webster (2013), the problem of being too concrete is that it can narrow the view of the issue. On the other hand, being too broad can result in being too vague. The concept of ideological steering encapsulates the interplay of the concrete and the broad in terms of efforts to steer societal development. Meadowcroft (2007, p. 311) defines ideological steering as “the development of sets of inter-related ideas that

influence activities at all levels.” Ideological steering shows how concepts such as sustainable development (SD) and the CE use their abstract and overarching nature to their benefit. These concepts can exceed the lines of political positioning, but they can also work as a framework for building political arguments. In this way, a set of ideas can create consensus and provide ammunition in debates. To illustrate, sustainable development is commonly defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p. 41). That definition rises to the level of the “common good,” and it is easy to agree with and difficult to directly argue against. Still, there is plenty of room for debate about SD. Declarations of the “common good” type do not answer the question of how SD is to be achieved.

For ideological steering to work, abstract and overarching concepts that provoke change need to be accompanied with other, more concrete concepts. These clarify the direction of societal development. The more concrete concepts reveal how change could be achieved and what it would look like in a specific context. While the interplay between the broad and the concrete is important for furthering change, it is essential for actors in some degree internalise and accept ideas related to change. The internalisation of ideas can manifest as commitments towards change. Widespread acceptance and commitment to change can enable the utilisation of more concrete instruments to further development. These concrete instruments include for example, adjusting regulation, creating new institutional actors, funding, and collaborating in different ways (Meadowcroft, 2007).

When analysing the promotion of the CE from the point of view of ideological steering, the same kind of logic applies as with SD. The objective of the CE is to bend the linear “take-make-use-discard” economy into a circular one, and in that way to make the economy sustainable. It is easy to endorse this objective and difficult to directly disagree with it. However, the objective of the CE does not in itself reveal how such change should be pushed through. This is where the concrete comes in, which in the case of the CE means the practices of recycling, ecological design, waste utilisation, etc. It should also be noted that when the discussion moves from general level declarations to the specifics of change making, there

is bound to be more debate concerning the direction of change. It is not problematic to declare that the needs of the present should be fulfilled without undermining the future generations' ability fulfil theirs, or that the resource flows of our economy should be closed. However, when considerations move towards how and where the change should manifest, conflicts of interests occur.

## Ideological Steering of the CE in Finland

For abstract ideas like the CE to generate change, it is essential that different actors to some degree internalise and accept the idea of what the concept is aiming to do. Only after that can the actual change – whether it is conceptualised as social, material, institutional, or structural – be pushed forward. The concept of ideological steering resonates with the idea of relational leadership discussed in this book. In ideological steering, leadership is not viewed as a capacity of individual entities, but as a relational event between actors that takes place in the influencing processes where social order and change emerge. In this section, I discuss the promotion of the CE using ideological steering as a theoretical prism. I highlight some examples showing how actors from different sectors of society relate and align around the concept in the Finnish context.

The first step is for change provoking concept needs to spread among the actors. In Finland's case, this is what the Sitra does by publishing reports and organising seminars about the benefits of the CE. In the last few years, the CE has become topical in public discourse (Lavikainen, 2015). However, for the internalisation process of CE thinking to work, the message about the CE needs to appeal to a different type of actor. In fact, the general level discourse about the CE aims to appeal with both a *push* and a *pull* message.

The push side of CE thinking involves pushing actors away from the practices of the linear economy. CE thinking does this by pointing out two sets of sustainability issues related to the linear economy. The first set highlights that our planet has biophysical boundaries and our economy should stay within those boundaries or else there is a risk of collapse. The

other set of sustainability issues deals with environmental problems that are the consequence of human activity – for example, climate change. These sustainability issues are grave; they are transnational in nature and are commonly accepted scientific facts (Steffen et al., 2015; Boulding, 1966). The key to underlining sustainability issues is to show the linear economic model to be irresponsible. This is done by outlining grave, scientifically proven problems of the “take-make-use-dispose” economy. To enhance the push side message, the effects of sustainability issues on businesses are also emphasised. For example, resource scarcity can make prices volatile. Consequently, when the irresponsibility of the linear economy is highlighted, the next reasonable step is to start thinking about how to change this unsustainable arrangement. Nevertheless, this sort of shaming is probably not the most efficient way to generate change. It is the pull side of CE thinking that increases the probability of change taking place.

The pull side is more positive in tone than the push side. The pull towards the CE involves showcasing the opportunities generated by change. These include estimates of how many new jobs would be generated and how much added economic value will be created by the transformation to the CE (Sitra, 2015; 2016). This affirmative message is especially appealing to public sector actors, who are essential for the change towards the CE. Public sector actors are important for two reasons. First, they have access to large amounts of resources that can be channelled into the change making process. A good example of this is the framework program introduced by the Finnish Ministry of Environment, which finances development projects for nutrient recycling practices and technologies (Ministry of the Environment, 2018). The resources can also be something other than money, such as information, utilisation, or access to networks (Farla, Markard, Raven, & Coenen, 2012). Second, the public sector has the power to change regulations, which is one of the most influential ways of changing the structures of production and consumption. It is the nation state that has the power to change regulations, although in the EU countries, some legislative powers have been devolved to EU governing bodies (EUR-Lex, 2018).

In addition to new jobs and added value for the economy, promoters of the CE speak about the business opportunities the change towards the CE could create. These in turn entice grassroots level economic actors to

add inputs from CE thinking to their business model – or, in the best-case scenario, to provoke them to change their entire business model to follow CE thinking. Talk about new business opportunities can be appealing to economic actors because they work in a competitive environment where new ways of doing business can provide a competitive edge. However, business opportunities need not to be simply about competition. For example, the Confederation of Finnish Industries published a CE promoting report titled *Take a Leap into Circular Economy! Together Towards New Growth* (2016), which introduces businesses operating according to CE thinking. The main point of the report is to encourage actors to discover CE business opportunities by crossing the established lines of industry – in other words, to cooperate with actors from unfamiliar fields and to create new businesses in line with CE thinking as a consequence of expanding networks. The main message of the report is cooperation, not competition.

Overall, public discourses on the CE are mostly positive. It is framed in terms of solving the issues of sustainability and creating opportunities that generate economic activity and “economic goods,” such as new jobs, added value, and business opportunities. Fundamentally, the ideological steering of CE involves creating enthusiasm for the CE among different types of actors and involving them in transforming the economy according to the CE principles.

## Struggles in Turning the Linear Economy Circular

There are also challenges that complicate the capacity of this abstract concept to generate change. In this section, I discuss the incongruities between CE thinking and material reality, the insincere use of the concept of CE, and the struggle over how far the CE should extend.

At the level of material reality, the CE discourse has cultivated concepts like the “closed loop” and “zero waste society.” In reality, both ideas are practically impossible. The problem with the “closed loop” is that matter and energy dissipate. This means a totally closed system is impossible (Boulding, 1966; Georgescu-Roegen, 1977). In contrast, a “zero-waste society” is possible, but we would then need to call waste something else.

After all, waste is the name for matter we put in rubbish bins. Since waste is a classification, the class could be named something else, but that would not change the fact that the economy produces overflow (Boetzkes, 2016; Hultman & Corvalles, 2012). In defence of these concepts, we should bear in mind their objective is to work as idealisations to which our production and conception system should aim as closely as possible.

The way in which the CE has been ideologically steered has its pros and cons. The clear merit of the CE is that it has spread efficiently among actors. Arguably, this is largely because the general idea of CE is easy to agree with. Despite being a somewhat abstract concept, it nevertheless gives strong indications of what kinds of measures should be taken and in what direction societal development should be steered. Besides, the abstractness of CE gives actors the opportunity to shape the idea of the CE to suit their own perspectives. Of course, this malleability also introduces risk.

An abstract concept can be used “insincerely” to designate practices that are not really about the change but more about maintaining the old ways of doing things. The concept of “greenwashing”, which refers to presenting a practice as “environmentally friendly” even if it is practically not, is already well discussed (see Seele & Gatti, 2017). The abstractness of CE means that some actors may claim a practice to be a form of CE, even when it hardly is. Valenzuela and Böhm (2017) have discussed “CE washing” as a related concern. They ask whether companies promising to take back their older products for recycling might actually be counter-productive from a CE perspective: the take-back promise might relieve consumers of feelings of guilt associated with buying a new product sooner than necessary. The problem in this case would be whether the “take back and recycle” promise increases the amount of consumption and decreases the life-cycle of the products.

The possibility of “CE washing” is not the only struggle concerning CE thinking. Another major issue derives from the push and pull perspectives

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**The take-back promise might relieve consumers of feelings of guilt associated with buying a new product sooner than necessary.**

that promote CE. Grave sustainability issues push towards change, while new possibilities pull towards change. However, there is a discrepancy between the two. In order to resolve issues of sustainability, there have been serious calls to cut the total amount of material production and consumption; to abandon the fetishism of economic growth (Kallis, 2011); and to make the economy fit the biophysical boundaries of the planet (Steffen et al., 2015). However, when discussion focuses on the opportunities presented by the CE (new jobs, added value to the economy, and business opportunities), it implies economic growth, and thus the greater utilisation of resources. In the worst case, it means we continue to overstep the biophysical boundaries of the planet despite achieving a CE (Hobson & Lynch, 2016). To make matters more complex, there is another issue to consider: if the change towards the CE did happen, when it would be “ready”? What would be the grounds to declare the CE has displaced the linear economy?

## Discussion

This chapter discussed whether the circular economy as an abstract concept can generate change, and how it could do so. It is thus also necessary to discuss what kind of change we are dealing with here. Does the CE involve planned, emergent, evolutionary, or revolutionary change? Arguably, it involves all of them, but also none, since the linear economy is the dominant paradigm, and the promotion of the CE is about provoking change.

There are obviously features of *planned change* in the CE. For example, some companies have started to do business according CE thinking (e.g., Confederation of Finnish Industries, 2016). To create or to change a business model to fit the lines of CE thinking requires planned decision making, reasoning, and action. There are also concrete step-by-step plans to turn Finland into a leading CE practitioner by 2025. Sitra (2016) has published “a road map” report on how this objective could be reached, which very much resonates with ideas that change can be planned.

However, the change towards the CE can also be conceptualised as an *emergent change*: If we examine the CE in a wider societal context, we see that it is multi-level, multi-actor, nonlinear, and non-finite in terms of

its timeframe. Even though in the CE promotion speeches the message is articulated in terms of the fixing the system, in reality change making is about adjusting a number of points in the system. In that sense, the promotion of the CE is about *evolutionary change*, where the key words are continuity, incrementalism, adaptation, and adjustment. Currently, the aspect of *revolutionary change* in the CE discourse remains normative: some critical voices argue that the change towards the CE should be more radical than it now seems to be.

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## CHAPTER 16

# Leadership for a Pluralistic Order? Assessing BRICS and Development Finance

MARKO JUUTINEN

## Takeaways for Leading Change

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The chapter discusses change on the macro level of the emerging world order through an analysis of BRICS development finance. It discusses BRICS as a new agent in global affairs, which responds to the leadership demands of a changing world order. Defined by pluralism and dispersion of power, the emerging world order necessitates a form of agency with a higher tolerance for difference. The focus of this chapter is on development. It seeks to assess BRICS agency particularly in this context through two competing hypotheses – BRICS as a challenger and BRICS as a constructive leader of change. The chapter first presents a critical perspective to development, then reviews scholarly perceptions and empirical evidence on BRICS. It concludes with a discussion on the hypotheses. Adopting a linear perspective to change, the chapter discusses the challenge of the BRICS to orthodox development finance, and sees no evidence of a challenge. However, the non-linear approach to change provides more nuanced insights into the agency and leadership role of the BRICS.

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The purpose of this chapter is to examine how the BRICS initiative relates to global governance and leadership.

International affairs are undergoing significant changes. On one hand, the US has lost its predominant position in global governance. While still powerful, it is unable to influence decisively international organisations. At the same time, the influence of rising powers and the long-excluded majorities of the Global South has increased. Because of this ensuing cacophony of a growingly pluralistic world order, global governance on multilateral level, like the World Trade Organization (WTO), has been crippled with international cooperation shifting to regional and intra-regional groupings. Consequently, international affairs are increasingly characterised by fragmentation, pluralism, and competition.

As a new institution of intra-regional and emerging power cooperation, BRICS presents us with a case study into these transformations. Are these changes making the world less governable and more conflict-prone? Or is governance just taking new forms to better reflect the inherent pluralism of the world? According to Amitav Acharya (2016), fragmentation of governance does not necessarily imply the end of governability and cooperation. In fact, he argues that fragmentation and pluralism might be a means for better leadership, more creative and responsive to particular contexts and special needs.

This chapter presents a case study on BRICS, founded in 2009 by Brazil, Russia, India, and China and joined by South Africa in 2011. The purpose of this chapter is to examine how this new initiative relates to global governance and leadership. This boils down to the question about BRICS' agency: what kind of agent is it? Two competing hypotheses frame this work: 1. BRICS is a challenger 2. BRICS is a constructive leader of change? The first hypothesis derives from the BRICS challenge theory, which proposes that BRICS seeks to challenge the current system and therefore promotes instability in global governance. This hypothesis defines the relation of new international organisations to global governance in terms of linear change.

The alternative hypothesis is based on a non-linear understanding of change, a key theme explored in this book. From a non-linear perspective, change may be conceived of as an inherently open process more akin to

creative chaos than planned harmony. Change is not merely a reaction to something or a logical outcome of preceding causes. Instead, changes occur in contexts where input factors are uncontrollable, unknown and random. In an increasingly pluralistic world order, where dispersion and multiplication of political agency, authority and knowledge have broken linear continuities between them, the non-linear perspective offers a complementary way to understand change. Indeed, linear perspectives presuppose continuity where it does not necessarily exist. This makes it difficult to recognise changes that come, so to speak, from outside the box.

The second hypothesis is that BRICS is a constructive force in global affairs. From this perspective, BRICS is a response to or reflective of the emerging pluralistic world order. It can be analysed as a space maker for new alternatives of governance, promotion of pluralism as well as leadership in diffused power system. The particular focus of this chapter is on BRICS development finance initiatives. It sheds light on BRICS's relation to development both as a paradigm and practice. To the extent that BRICS creates space for new development practices and paradigm, and to the extent it takes leadership in solving development issues, it deserves the label of a constructive leader of change.

The chapter is organised as follows. The first section discusses development as a paradigm applied by international financial institutions, the World Bank and the International Monetary Fund. The second section discusses current debates and perceptions of BRICS and details the two hypotheses of the case study. The third section presents an empirical analysis of BRICS development finance initiatives, establishing the differences between BRICS institutions and the dominant multilateral financial institutions. It argues that while BRICS can only with difficulty be seen as a promoter of alternative development finance, it is nonetheless opening up a space for rethinking and unthinking the predominant ideas and practices of development finance.

## ProblematISING the Orthodoxy of Development

The concept of development means evolution in a state of being or a gradual rise from being underdeveloped to being developed. The concept

is *descriptive* in the sense that it refers to a process of becoming something. While there is no strict classification of developed countries, this group of countries includes the usual suspects: the US, Canada, most of Western and all of Northern Europe, Australia, South Korea, Switzerland, and Israel. All these countries are liberal democracies. According to some scholars (e.g., Ferguson, 2011; Fukuyama, 1992), it is the practice of free markets, competition and individuality that defines liberal democracies and explains their advancement. Liberal democracies, according to this view, have found the paradigm and the formula for development. In this sense, development can be framed as a *normative* concept.

From an epistemological standpoint, development is like any other normative concept: it is of a fundamentally subjective nature. There is no God of development – seen and heard by all of humanity – who could lay down, explain and teach the paradigm of development. From a philosophical standpoint, development is a pluralist concept. While its actual form and substance varies from place to place, from people to people, no one can claim universality for their subjective ideas. Nonetheless, development has its high priests and armies, like most other subjective truths of political importance. Indeed, it was not so long ago that the Washington-based international financial institutions (IFIs), the World Bank Group and the International Monetary Fund (IMF), dominated the politics of development. The orthodoxy which emerged from these institutions was the idea that market forces were the best mechanism for development. This is usually referred to as the Washington Consensus or free market fundamentalism (e.g., Stiglitz, 2002).

This orthodoxy of development was based on the idea that private market forces were the best available mechanism for development and that the state of being developed was equivalent to an unfettered market economy. It was not merely an ideology. It was a political practice by international financial institutions financing development projects expected to step in when states need financial assistance (acting, for example, as a lender of last resort). In practice, the Washington Consensus meant that any country in need of financial help from the IMF and the World Bank had to commit itself to political reforms. These included privatizations of public property, cuts in public spending on infrastructure, education and health,

trade liberalisation and the deregulation of foreign exchange (Babb, 2013; Glinavos, 2008; Saad-Filho, 2010; Williamson, 2004).

There are several instrumental reasons for the rise of a singular paradigm of development above all others, two of which stand out. The first is the former hegemonic position of the USA, which contributed to the universalisation of this singular paradigm. The second is the epistemic foundation in mainstream economics that combines subjective preferences and normative values with universality. One of the leading figures in making this combination was the Austrian economist Ludwig von Mises. According to Mises (1949, p. 21), the backbone of social and economic development is the individual choices repeated day after day in free markets and mediated by prices and money. For von Mises, this fundamental subjectivism of free markets is the foundation of scientific objectivism: instead of norms and values, objectivist science studies market preferences. This provides the only scientifically verifiable norm for a good society: liberty to choose and free markets. Von Mises (1949, p. 21) writes:

[I]t is in this subjectivism that the objectivity of our science lies. Because it is subjectivistic and takes the value judgements of acting man as ultimate data not open to any further critical examination, it is itself above all schools of dogmatism and ethical doctrines, it is free from valuations and preconceived ideas and judgments, it is universally valid and absolutely and plainly human.

Sustainable use of natural resources is one of the problems of this perspective to development, particularly that developed countries have polluted the earth so that life-giving radiation from the sun does not escape the earth as it used to. Instead, it shines ever warmer on the plastic garbage islands (larger than some countries) surfing the oceanic streams, which are in jeopardy due to melting polar ice caps. This model of development, as Peruvian diplomat and author Oswaldo de Rivero (2010, p. 2–3) argues, “operates in the same way as a cancerous cell that goes on destroying the organism off which it lives.” The most ardent proponents of free market fundamentalism argue that the rise in our material well-being through the availability of cars, mobile phones, McDonalds and, most importantly, the decline in child mortality, are clear indications of a true

global development. However, economic development has been paralleled with ecological disaster. From the only universally applicable perspective, that is, the preservation of our common earth, economic development has also brought about a rapid degeneration of the natural environment.

Another set of problems related to the development orthodoxy are social in nature. Only a minority of the global population, even in developed countries, enjoys economic independence, which is a key aspect of free market competition. Without it, market-related choices are less about individual preferences and more about power. Even more importantly, one should not forget the millions of people born to life at a subsistence level, without individual or communitarian control over their living environments and subjected to the force of hunger and the money that serves global markets (Alvaredo, Chancel, Piketty, Saez, & Zucman, 2018, p. 10–14; FAO, IFAD, UNICEF, WFP, & WHO, 2017, p. ii).

Concern with the social effects of economic development is not new. It was raised by the founders of both liberalism and communism. Karl Marx's (1887/2010, p. 313) critique of the English factories, where the worker becomes "a living appendage of the machine," is still applicable to the sweatshops of Indonesia, China, India and other parts of the emerging and developing world. Adam Smith (1776/2005, p. 637–638) worried about the effects of long hours of stationary factory work on the intellectual and emotional abilities of workers. He wrote that the high productivity and economic gains for the owner may come with heavy costs for the worker, "to be acquired at the expense of his intellectual, social, and martial virtues." It is equally questionable whether it is proper for millions of people in developed societies to live in poverty through both unemployment and minimum wage employment, while a wealthy minority acquires the majority of the income (Ehrenreich, 2001; Shipler, 2005).

Thus, the problems of this old paradigm are many, and it has been objected to critique from academia, from developing countries as well as from within multilateral institutions (e.g. Rodrik, 1996; Stiglitz, 2002; Mendes Pereira, 2016). As a result, the international financial institutions have sought to better take into account problems of poverty and social exclusion, employing the concept of inclusive growth to describe shift away from the old orthodoxy (Mendes Pereira, 2016; Saad-Filho, 2010).

Yet, many scholars have argued that these changes do not amount to a change in the paradigm itself and that, in spite of some reforms, the Washington Consensus remains without an alternative. (Babb, 2013; Glinavos, 2008; Saad-Filho, 2010).

Against this background, BRICS has elicited debates on how it relates to the Washington Consensus and whether BRICS offers alternatives to the old development paradigm (see e.g., Ban & Blyth, 2013; Gray & Gills, 2016; Bond & Garcia, 2015). This chapter seeks to relate BRICS to global governance through the international financial institutions and in particular through the orthodoxy of development.

## BRICS: A Challenger or a Constructive Leader?

BRICS scholarship has mostly operated within linear or evolutionary perspectives on change. In other words, the focus has been on a potential rupture with the past or a gradual improvement of it. The BRICS challenge theory can be divided into two main hypotheses: a) that BRICS poses a challenge to the hierarchy between states in the current multilateral system or b) that it seeks to challenge the system. Challenging the hierarchy between states is relevant for a state-centric analysis of international relations, and particularly for the US and its allies (e.g., Tammen et al., 2000). From an institutionalist perspective, international relations are mostly understood in terms of rules and norms, whereby decision-making takes place in international organisations between many states (e.g. Ikenberry, 2001). From an institutionalist perspective, it is relevant to study BRICS relations in terms of the current institutions, rules and norms.

In the global trading and financial system, BRICS has already engendered some changes. In response to the US dominance in international financial institutions, BRICS launched two new financial institutions in 2014: the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA). Three BRICS members of the World Trade Organisation (WTO), Brazil, India and China, played a crucial role in upsetting the former balance of power at the WTO by increasing the influence of the developing world (Hopewell, 2016). In its summit declarations, BRICS calls for a greater

voice for the developing world and demands democratic reforms at the United Nations (UN), World Bank and IMF (see Stuenkel, 2013; Thakur, 2014). What exactly have been the effects and objectives of these changes? Is BRICS promoting a new kind of economic and social development and a new type of multilateralism, or is it simply seeking a greater level of influence; i.e., seeking to change the hierarchy between states?

The BRICS are not the best promoters nor appliers of market-oriented regulatory systems, fiscal austerity and comprehensive trade liberalisation (Babb, 2013; Fourcade, 2013; Schmalz & Ebenau, 2012). They have instead retained varying measures of direct or indirect state control over their markets (Nölke, ten Brink, Simone & May, 2014; Stephen, 2014), most notably China (Jiang, 2014; McNally, 2012; van der Pijl, 2012). Moreover, in the UN, China and Russia – both members of the Security Council – have used their veto power in support of either their strategic interest or the fundamental values of national integrity. An example of this is the US-led humanitarian intervention in Syria and regarding the application of the Responsibility to Protect (R2P) commitment (Stuenkel, 2014).

The fact that the BRICS economies differ from liberalised Western economies does not, however, validate the hypothesis of systemic change. Internally, the BRICS countries are very different in terms of their economic structures implying that they have no shared economic vision or a challenging economic alternative to offer. Russia is heavily dependent on its oil and gas exports and has a poorly diversified economy. India has a booming services sector, but about half of its population survive on small-scale agriculture. There are as many poor Indians as there are Europeans altogether, but there are also as many rich Indians as there are Germans. China, however, is the most important trading partner of all world powers, and while many are dependent on China, China is dependent on only a few. Interestingly, China's economic ties are much closer to the EU and the US than, for example, to India or other BRICS countries. Moreover, China's economic (and military) clout in South Asia (India's neighbourhood) has intensified the already deep-seated conflicts between the two.

BRICS has no common agenda for change. Indeed, Babb (2013) has shown there is no such thing as a BRICS consensus that opposes the

old Washington Consensus. Duggan (2015), in contrast, has argued that BRICS is changing the rules and norms of globalisation with a new agenda of global economic governance. His conclusion was based partly on the antipathy of BRICS towards internal reforms and partly on the discourse of development in BRICS Summit declarations. Nevertheless, Duggan does not prove the existence of an actual agenda. Instead, he simply demonstrates the existence of a discourse that deviates from established views on development. True, as Mielniczuk (2013) has argued, new or alternative discourses can have long-standing effects on the ideational construction of global governance through creation of shared purposes. This, however, is also not the same as an agenda nor does it necessarily lead to a formation of new or alternative agendas.

The scholarly debate around BRICS does not render support for the BRICS challenge theory, in the sense that BRICS is actively promoting systemic change. In contrast, the Trump administration clearly views China and Russia in particular as challengers of the US-led international system. These states, according to this view, do not only seek to overturn the hierarchy between states, but also challenge the dominance of the liberal democracies in international affairs. The recent US National Security Strategy (Trump, 2017, p. 25) and the National Defence Strategy (Department of Defense [DoD], 2018, p. 2) declared that great power competition has returned and that challenger states seek “to shape a world consistent with their authoritarian model – gaining veto authority over other nations’ economic, diplomatic, and security decisions.”

It is indeed true that BRICS countries have used their position to challenge the US and developed country agendas at the UN and WTO. However, that does not mean that they would not have played by the rules. Disagreement is fully acceptable. Moreover, democratic decision-making among peers is much more difficult than managing a hierarchical system. Governance of the UN and WTO is today much less about hierarchy between states that it was during the post-Cold War unipolar moment (e.g., Ikenberry, 2015; Hopewell, 2016). It is much more about democratic decision-making among peers. Thus, governance is bound to be more prone to disagreement, shifting alliances and timely negotiations, but this is something that comes with pluralism and evidences the viability of

cooperation instead of its demise. BRICS has indeed underlined its support for global institutions and multilateralism:

We emphasize the importance of an open and inclusive world economy enabling all countries and peoples to share in the benefits of globalization. We remain firmly committed to a rules-based, transparent, non-discriminatory, open and inclusive multilateral trading system as embodied in the WTO (BRICS, 2017, art. 32).

Upholding development and multilateralism, we are working together for a more just, equitable, fair, democratic and representative international political and economic order (BRICS, 2017, art. 2).

At least within the BRICS grouping, the so-called authoritarian states, Russia and China, are demanding the democratization of international affairs. It is, however, the leading democracy in the world that flouts the rules: Putting its protectionist rhetoric into practice, the Trump Administration has imposed a unilateral 25 per cent tariff on metal imports – in violation of global trade rules. He has tweeted that “trade wars are good, and easy to win” (Rushe & Haas, 2018). It appears that the challenge to the multilateral system is coming from the West rather than the rest. The transformation from international cooperation to great power competition is perhaps a suitable description of how the current US administration relates to multilateral governance rather than how BRICS or China does. This situation is known as the Thucydides Trap. The expression originated from the fear felt by the Athenians regarding the rise of Sparta; a fear that contributed to the long Peloponnesian War (Zhang, 2015, pp. 176–177).

There is insufficient evidence to confirm the BRICS challenge theory that BRICS poses a) a challenge to the hierarchy between the states in the current system or that it seeks to b) challenge the entire multilateral system. Hierarchies between states are constantly evolving. From the perspective of dominant powers wishing to retain their dominance, the rise of new powers poses a challenge. If, however, the rising powers are constructive players, willing to cooperate within established institutions, changing the hierarchy between states does not represent a challenge against the system. Thus, scholars tend to dismiss the likelihood of a systemic challenge. This

leaves the BRICS challenge theory poorly equipped to understand change because the absence of a challenge does not equal a lack of change. This is where the dynamic conception of change outlined in the framework chapter of this book comes in.

From a dynamic perspective, changes in open systems are not necessarily planned from above but emanate from through multiple channels from below, above and from between. Changes in multilateral governance may thus arise from a situation where developed countries no longer have a dominant position. Barma et al. (2009) have suggested that while emerging economies may not seek to overturn multilateral institutions, they may be constructing new webs of interaction that sideline developed countries. The result of this process would be a world “without the West”. This interpretation builds on the idea that by increasing cooperation and diminishing the centrality of the US and its allies, BRICS and the rising powers may not actively change world order or seek to challenge its former hegemon, but they nevertheless do instigate some change. Instead of actively promoting change, transformations occur through a constantly intensifying cooperation. The emerging powers thus create new webs of interaction with new central nodes, diminishing the importance of old nodes. As a consequence, even if BRICS does not actively challenge the global system, it can nevertheless be seen as a force of change.

Thus, a competing hypothesis to the BRICS challenge theory is that BRICS is a constructive force in global affairs, which promotes change by creating a space for alternatives. To be a constructive leader in the case of development finance, BRICS should fulfil the following conditions: 1) cooperate with multilateral financial institutions, 2) develop alternatives to liberal development policies and 3) promote open debates and formulations of development policies. The following sections assess BRICS development finance initiatives from this perspective.

## Assessing BRICS Development Finance

The BRICS policy of development finance culminates in its two institutions, the NDB and CRA, both launched in 2016. The NDB was established to

mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging and developing countries. The CRA provides a financial safety net for BRICS countries through the establishment of a currency reserve. These tasks overlap with those of the World Bank and IMF.

Since its first summit in 2009, BRICS has demanded reforms at the IMF. The object of the group's dissatisfaction were the IMF voting quotas, giving veto right to the US and disproportionate influence for the developed countries. IMF development policies was not the focal point of critique. BRICS did not act alone in its demands. In fact, BRICS adapted its reform agenda from a previous agreement among major powers reached in 2008 (under the auspices of the G20 Summit). The US congress, however, did not agree to reform the voting system, which would have ended US dominance in the institution. Thus, at the UFA Summit in 2015, the BRICS leaders declared, "[w]e remain deeply disappointed with the prolonged failure by the United States to ratify the IMF 2010 reform package, which continues to undermine the credibility, legitimacy and effectiveness of the IMF" (BRICS, 2015, art. 19).

International democracy is one of the fundamental values of BRICS. While multilateral development finance institutions are run on the basis of one dollar one vote, BRICS institutions are run on a basis of one country one vote. In the NDB, decision-making power is equally divided between the five BRICS member states. Yet, while the NDB is open to all UN members, the principle of country voting is reserved only for the BRICS members. According to the founding agreement of the NDB, the voting power of the five original members shall not fall below 55 per cent of total votes, whereas the maximum voting power of any new member state shall not exceed seven per cent. The NDB will thus remain dominated by BRICS, even if its membership expands. In this regard, it is similar to the IMF and World Bank, where developed countries still retain disproportionate influence compared to their role in the global economy through the voting rules that reflect the past share of developed countries in global economy, not the current one (NDB, 2014, art. 5, 6, 8, 11; IMF, 2018).

The NDB and CRA have the financial means to make an impact. The initial authorised capital of the BRICS bank and the CRA was one hundred billion US dollars (100,000,000,000) respectively. For comparison, the capital of the International Bank for Reconstruction and Development (the World

Bank Group) is 230 billion. For the IMF, the total amount of special drawing rights (i.e., an artificial currency instrument used by the IMF, comprised of a basket of important national currencies) was in 2015 approximately 240 billion units, which converts to about 340 billion US dollars.

Two additional factors contribute to the financial relevance of the NDB and CRA. First, as they are open to new members and as, for example, Turkey, Indonesia and Mexico have already shown interest in joining, the financial power of the NDB and CRA has growth potential. Moreover, BRICS countries are better positioned to invest in development finance, as their share of global savings is larger than the combined share of the US, the EU and Japan (ORF, 2015). How does BRICS use this financial leverage?

The purpose of the NDB is to channel funding for development and infrastructure projects in emerging and developing countries, “complementing the existing efforts of multilateral and regional financial institutions” (NDB, 2014, art. 1). Rather than being a challenger, the NDB is complementary to the World Bank and IMF. The key difference is that BRICS financing has been delinked from the policy reforms and conditions that the traditional institutions are known for. This is clearly stated in the NDB’s strategy:

National sovereignty is of paramount importance to NDB in its interactions with member countries. NDB’s mandate does not include prescribing policy, regulatory and institutional reforms to borrowing countries (NDB, 2017, p. 11).

Moreover, instead of embracing an ideology of development, the NDB seems to invite discussions and debates on development. This is an important inference because it implies that the NDB may be seeking to distance itself from the prevailing development paradigm of the predominant IFIs. The NDB’s General Strategy states:

The bank will constructively engage the international community as an independent voice on development trends and practices. As a new institution, NDB has much to learn from the wealth of experience of multilateral and bilateral development institutions, as well as civil society and academic organizations (NDB, 2017, p. 11).

The NDB thus seems to fulfil the three conditions of a constructive leader of global change. Conversely, the CRA is organically linked to the IMF and its reform policies. The objective of the CRA is to provide a safety net against potential shocks in global financial markets and the possible resulting balance of payment problems. So far so good, but if and when any BRICS country or other (future) member of the CRA has to rely on its lending, and when this country needs more than 30% of its borrowing quota, it must first seek structural adjustment loans from the IMF before it can receive additional support from the CRA.

It is thus possible that the CRA evidences BRICS approval of the prevailing ideology of economic development, which led to the so-called lost decade in Latin America in the 1980s and is currently causing similar levels of destitution in Southern European euro-countries. The lost decade refers to economic and social dislocation caused by privatisation, the dismantling of social infrastructures and soaring unemployment (see Bond, 2016; Stiglitz, 2002).

From the perspective of BRICS as a challenger of liberal development policy, the CRA's linkage to IMF policy reforms poses an analytical dilemma. This serves as an apparent contradiction between rejecting conditional development finance, on one hand, *and* being committed to structural adjustment, on the other. In a way, BRICS gives with one hand and takes with the other. A possible solution to this dilemma comes from the understanding of the group's role in development finance as a space maker instead of as a challenger. Its rejection of conditionality does not emanate from a conviction that structural adjustment policies are wrong and evil, but from a conviction that it is not the only truth or comprehensive perspective on development. BRICS may thus be willing to continue to cooperate with the IMF, even by subjecting its members to structural adjustment, while simultaneously constructing development without the same conditions.

## Discussion

This chapter has analysed the BRICS agency in development finance through the lens of two competing hypotheses (for broader discussions

on BRICS, see Juutinen & Kähkönen, 2016a; 2016b). According to the first hypothesis, BRICS is a challenger, while the second posits that BRICS is a constructive leader for change. There is little evidence in the case of development finance to suggest that BRICS is a challenger of the old paradigm of development or of multilateral institutions of financial governance. There is increasing literature arguing that, instead of providing for alternative paradigms, BRICS development policies are of a rather conventional nature (Bond, 2016; Gudynas, 2016). Surely, for the future of global cooperation, this is good news.

This chapter has also sought to demonstrate that BRICS development finance has some special characteristics. While not suitable as a challenger, these characteristics befit a discussion on BRICS as an opener and leader of innovative and constructive change. These characteristics relate to the ability and willingness to 1) cooperate with global financial institutions, 2) break Western intellectual and practical dominance at the multilateral level or any type of singular development paradigm and 3) promote open debates and formulations of development policies.

Consequently, there is space to argue that to some extent BRICS has made it possible to provide alternative views about development finance. Through its financial heft and, indeed, its new financial institutions, the NDB and CRA, it also demonstrates the increasing pluralism of the post-hegemonic world order. As Acharya (2016) has argued, this pluralism does not necessarily pose additional threats to global cooperation. What the NDB and CRA can accomplish is to provide tailored development finance – defined on the basis of particularistic and local needs and requirements. As a result, the two institutions may contribute to the strengthening of global governance instead of its delegitimization.

At the same time, while rejecting the ideational dominance of the development policies by the IMF and World Bank, BRICS welcomes them as one among many other agents of development. Indeed, BRICS demonstrably supports structural adjustment to some extent – without endorsing it as the only alternative or the leading principle of their own development finance. In addition, Patrick Bond (2016) has argued that BRICS is as much about resource extraction, environmental degradation and capitalist power asymmetries as any developed country and much more

than any of the Northern countries. As a result, it appears that the structural and ideational continuities of capitalism bind BRICS to the old. In this sense, BRICS is indeed not a challenger but also hardly a leader of change.

Even though it appears that BRICS is a new type of actor on the global stage, this interpretation thus has serious limitations. BRICS is new in the sense that it builds on and promotes pluralism by breaking the ideational predominance of the orthodoxy of development. Yet, while BRICS has created a space for discussion about alternative development models, there is little evidence of BRICS actually taking the lead in this discussion. Perhaps the BRICS promise is yet to materialise.

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## CHAPTER 17

# Megatrends in the Insurance and Financial Sector

RAIMO VOUTILAINEN & LASSE KOSKINEN

## Takeaways for Leading Change

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Megatrends are complex in nature, and a good understanding of them requires new skills and perspective. This chapter discusses megatrends in the context of the insurance and financial sectors. It argues that leaders and managers in the insurance and financial sector must be ready to rise to new challenges, from managing businesses in complex environments to operating in fields that are fundamentally changing and in a transition phase. In connection with these developments, more information is available now than ever before, and that information must be managed effectively. Analysing changes in terms of industry specific megatrends and trends presents one possibility to do this. Globalisation has opened new opportunities and brought new risks for businesses. This chapter outlines how leaders and managers within insurance and financial enterprises can endorse the complex character of such transformations as well as the dynamic nature of these changes.

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Megatrends and trends offer a fruitful approach to analysing change. The term “megatrend”, as defined by John Naisbitt (1982), describes the significant social, economic, political, and/or technological movements that shape our lives. Megatrends are larger in magnitude, longer in duration, and deeper in their effects than normal trends. They are complex combinations of factors and huge in their effect, in both time and space (Mittelstaedt, Shultz, Kilbourne, & Peterson, 2014). Megatrends can best be identified and analysed in relation to more detailed grassroots trends.

We examine how contemporary megatrends are visible in the insurance and financial sector, alongside key trends that have altered the landscape in this area. We show that managing this change has become a major challenge for the top management of financial enterprises and point out ways in which companies in these sectors can respond to the challenges arising from contemporary megatrends.

At both the European and global levels, the insurance and financial sector has experienced profound structural change in recent decades. One key factor in these developments has been the banking sector and insurance sector competing with each other while at the same time also cooperating with each other (Voutilainen, 2006). Competition has taken place in the form of *financial convergence*. This means insurance companies launch products that perform nearly or exactly the same task as products from banks, or vice versa. Another manifestation of financial convergence is a company in one of these sectors establishing a new company in another sector or acquiring a company in that sector. Finnish banks have been especially active in establishing or acquiring insurance companies, which is why the chapter focuses on examples from Finland.

As for cooperation, *alliances* have been formed between banks and insurance companies. The most preferred alliance model from the executive management point of view is a financial conglomerate – banks and insurance companies operating under common ownership. The benefits of this arrangement is the increased potential for effective cross-selling and diversification of business portfolios. The drawbacks include high capital costs and often significant upswings and downswings in business results (e.g., Voutilainen, 2006). Here too, expansion beyond the financial sector can be seen, with banks and insurance companies starting

joint operations in other fields (e.g., OP Group, 2018). At the same time, non-financial companies have entered the insurance and financial sector.

We then identify various (micro) trends in these fields, providing both Finnish and international examples and discussing the benefits and drawbacks associated with the individual trends. The discussion also examines each of these trends in light of societal megatrends.

Figure 1 summarises the relationship between individual and macro trends. At the upper level there are the three megatrends: (M1) More complex regulation and taxation, (M2) Technology and demographic transition, and (M3) Fundamentally changing business models. We introduce them on the basis of their magnitude, duration, and effects on the insurance and financial sectors. At the lower level we classify individual trends under applicable megatrends.

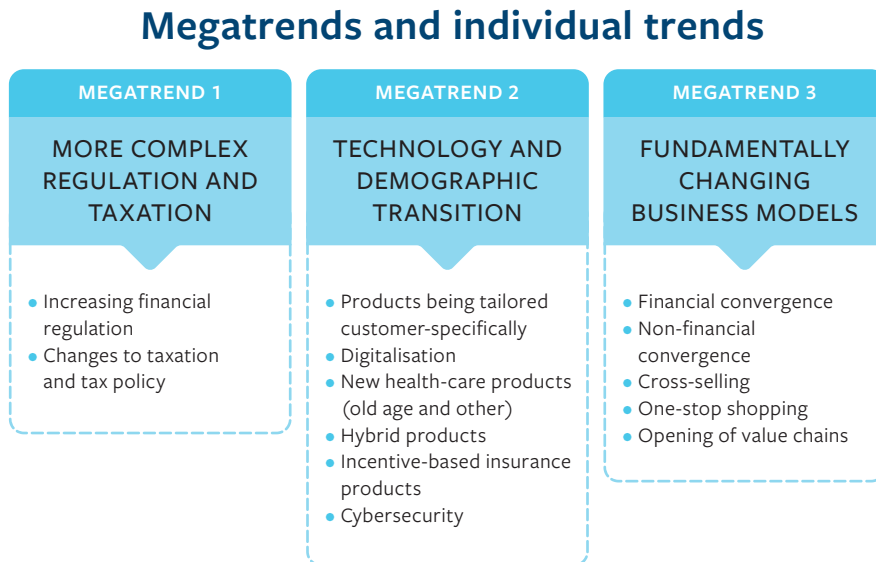


FIGURE 1: Individual trends and corresponding megatrends

This chapter proceeds in the following way. First, we discuss the megatrend, more complex regulation and taxation. We then examine the technology and demographic transition megatrend. This is followed by a discussion on fundamentally changing business models. We then examine the role of risk management

## The Trends and Megatrends Observed

Trends in the insurance and financial sector are partly exogenous but are also influenced by the actions of the industry. On the basis of observed industry practice and reports, we have identified several trends:

- Increasing financial regulation
- Changes to taxation and tax policy
- Products being tailored customer-specifically
- Digitalisation
- New health-care products (old age and other)
- Financial convergence
- Non-financial convergence
- Incentive-based insurance products
- Cross-selling
- One-stop shopping
- Hybrid products
- Cybersecurity
- Opening of value chains

Proceeding from scientific findings, we further classify these fundamental trends in terms of societal megatrends. The trends listed above can be best categorised as part of three megatrends: The first of these is a megatrend of more complex regulation and taxation; the second is demographic and technology transition. The third refers to fundamental changes in business models. While the individual trends could be classified in several ways, the authors find this approach to be most logical for the reason that each trend can easily be attached to its corresponding megatrend.

## More Complex Regulation and Taxation

Complexity of the financial sector is a well-known phenomenon. Nicola Cetorelli, James McAndrews, and James Traina (2014) have shown that bank holding companies have grown in size and also become substantially more complex. The findings suggest that greater complexity is a natural adaptation to a new model of finance oriented toward securitisation. It is an important one indeed. Åke Freij (2017) has demonstrated the great significance of regulatory change for firms and entire industries and the difficulty in managing the implementation of new requirements arising from such change. The financial sector well exemplifies the type of boundary-spanning phenomenon this book focuses on. Changes occurring in the financial sector are an outcome of actions and interactions of public authorities and private actors. These actions and interactions are also multiscalar in the sense that their origins are in local, regional, national or supranational environments.

The strongest shapers of trends and changes in economic life are the actions of public authorities, particularly in relation to regulation and taxation. Decisive movement in this area is especially strong in the insurance and finance sector. Manifested principally in stricter rules, this clearly qualifies as a megatrend. This section describes the emergence of a more complex regulation and taxation landscape. It dissects this megatrend into two trends: We first examine the effects of increasing financial regulation on the actions of companies. We then detail trends in taxation and taxation policies.

In the insurance sector, the EU Solvency II regulations have been in force since the start of 2016. The new rules are risk-based and entail much more precise risk estimates than earlier regulations, for both the investments and technical reserves of insurance companies. At the same time, with the new Basel rules, capital and liquidity requirements for banks have increased. The Basel rules were set up by the international Basel Committee and regulate mainly capital and liquidity requirements for banks. Many bigger banks apply internal models for capital adequacy calculations, but the Basel committee seems to be heading towards prohibiting the use of internal models (expected with the so-called Basel 4).

The European Insurance and Occupational Pensions Authority (EIOPA) is the authority for regulating solvency requirements for insurance companies and occupational pensions companies in the EU. It has provided instructions for several stress tests (e.g., European Insurance and Occupational Pensions Authority, 2016) to assess the resilience of European insurance companies against adverse macroeconomic developments. The new Solvency II rules are so strict, in fact, that several European insurance companies have opted to take advantage of transition arrangements made possible by supervisory authorities and terms of Solvency II.

The capital requirement associated with traditional and with profits life insurance are one important example of how rigorous the new solvency rules are. In traditional life insurance, there is a capital guarantee and a limited profit guarantee. The capital guarantee obligation requires the firms to hold a large amount of solvency capital. An alternative to the traditional life product, unit-linked life insurance involves no guarantee. The insured decides how to invest his or her money and retains full responsibility for profits and losses during the insurance period.

It is natural that the solvency capital requirement for unit-linked insurance is only a small fraction of the capital requirement for traditional insurance. However, with Solvency II, this difference becomes even larger. Consequently, insurance companies are shifting their businesses from traditional life insurance to unit-linked offerings (see Ruuskanen & Voutilainen, 2015). For regulatory reasons, customers are no longer able to obtain guaranteed policies. They are obliged to make investment decisions they are not qualified to make or at least often dislike. As a response, life insurance companies have started to produce compromise products combining features of traditional and unit-linked life products: so-called variable annuities with a limited guarantee (Ruuskanen & Voutilainen, 2015). In this product, the insurance company may be obliged to pay back at least the amount of the premiums – for example, as a death benefit or as savings at a certain time. The solvency capital requirement of a variable annuity is less than that of traditional life insurance but greater than the amount of capital required for unit-linked insurance.

Supervision of large financial conglomerates is particularly challenging, especially in cases of cross-border groups. Pekka Korhonen, Lasse Koskinen,

and Raimo Voutilainen (2006) brought together Finnish banking and insurance supervisors to ascertain which model for alliance between banks and insurance companies they most preferred. The supervisors chose a loose cross-selling agreement, citing supervisability and management of system risk as the most important criteria in their decision.

The second element in the megatrend of increased regulatory complexity is the taxation environment. Taxes on financial products have profound effects on customer behaviour and, thereby, on product development. Below, we illustrate the effects of shifts and complexities in taxation, which is highly country-dependent, by looking at developments in Finland. This is an interesting example of how public and private actors behind change dynamics interact.

The Finnish state has reformed the tax treatment of individual pension insurance several times over the last two decades. The lowest possible retirement age has been raised and tax deductions for premiums have decreased. Before the latest tax reform, there were 700.000 pension insurance customers, but few have been interested in the product since then. Currently, the lowest retirement age allowed is 68 years and the pension must be paid out over a span of not less than 10 years. Information on Finnish taxation system can be found in Finanssivalvonta (2017).

As changes in the state's taxation policy have made individual pension products unattractive for customers, life insurance companies have developed other products suitable for long-term savings purposes. For example, Nordea, which is the biggest financial group in the Nordic countries, has launched a capital redemption plan that pays out regularly. The product, called Target Saving, can supplement the mandatory pension, but it can also be used to finance studies or any time when there is no actual salary, thanks to the regular outpayments.

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The product has no tax-deduction benefits like those for the individual pension, but its taxation is neutral. This is considered satisfactory since there are no restrictions on withdrawals as with individual pension plans (for a closer description of the product, see Nordea, 2017). It is clear that, because of the adverse tax treatment of individual pension insurance, customers are turning to alternative long-term savings products developed by life insurance companies. While lacking tax deductability of the premiums, they do not impose restrictions on withdrawals of savings.

Another part of the picture is mortality cover – life insurance with death as insured event. The term “mortality protection gap” refers to the shortfall between the amount of coverage and what is necessary for maintaining the living standards of dependents. The size of this gap is calculated as follows: resources needed minus coverage in place through individual policies and employer-sponsored group life coverage. The reinsurance company Swiss Re (2015) has estimated the mortality protection gap in the Asia-Pacific region has increased sharply, amounting to 58 trillion US dollars, or 255% of the region’s gross domestic product. Unsurprisingly, a large mortality protection gap is a sign of sales potential for life insurance companies. In Finland the death sum (i.e., the amount payable upon death) has enjoyed certain benefits in inheritance taxation. However, these benefits ceased at the beginning of 2018. This change affects individual and group policies alike, also encompassing policies sponsored by the employer. The new legislation has led to great disappointment (expressed by consumer organisations and labour unions), because there are compelling social reasons for favorable tax treatment of mortality coverage.

One advantage of unit-linked insurance is that the value change of investment objects (most often investment funds) does not result in taxable capital income. The tax is not collected before the end of the insurance term, which could be called a tax postponement benefit. A working group under the leadership of the Finnish Ministry of Finance is reviewing the possibilities for taxing this benefit, as is done in Sweden. The Finnish insurance industry is lobbying heavily against this because insurance already has disadvantages when compared to other forms of saving. In Finland, there is double taxation, at least in part, for almost

all types of life insurance. The only exception is risk life insurance which is not mortality insurance and in which the claim amount is paid out as a tax-free lump sum.

This megatrend includes changes in both regulation and taxation. The regulation trend has affected the product offerings of life insurance companies. The taxation trend has made certain products unattractive to customers which in turn has affected product development and offerings of life insurance companies and banks as their agents.

The Finnish Government has introduced a new banking product – the investment savings account – for equity saving. The product has the same tax-postponement property as unit linked insurance.

## Technology and Demographic Transition

Breakthroughs in such fields as artificial intelligence and the Internet of things are making a huge impact on industry, on both the technology and the business fronts. At the same time, the aging of populations contributes to everything from economic shifts to changes in societal norms. In our analysis, the combined effect of technological developments and demographic transition constitutes a megatrend. This megatrend is transforming society radically. We have dissected this megatrend into several smaller scale trends (see Figure 1).

Evidence of this megatrend can be seen in the digitalisation of the insurance and financial sector where the interface between company and customer is moving to the Internet. Jobs are vanishing in large numbers while new jobs emerge. Peter Weill and Stephanie L. Woerner (2013) discuss optimisation of digital business models. While many are pessimistic about the loss of jobs, others are less worried, stating, for example, that “Booz & Company’s econometric analysis estimates that, despite the unfavourable global economic climate, digitalisation provided a USD 193 billion boost to world economic output and created 6 million jobs globally in 2011” (p. XIV, Sabbagh, Friedrich, El-Darwiche, Singh, & Koster, 2013). Either way, financial-services enterprises should respond by investing in developing the abilities of their employees to deal with change.

One manifestation of this megatrend in the Finnish context, in both the insurance and the financial sectors, is that physical meetings between a customer and the company are being replaced by online meetings. Nearly all customer transactions can already be handled over the Internet. It is a general belief in Finnish insurance and financial companies that most customers find Net meetings to be sufficiently intimate, since the customer can see the service worker on the screen while the service is being provided. Nonetheless, some capacity for physical meetings will be retained for a while yet – integrating customer relationship management across the various channels (branch offices, telephone service, and the Internet) is challenging.

Artificial Intelligence (AI) and robotics are revolutionising the work processes of insurance companies and banks. AI has had significant success in the health-care sector in particular (e.g., Zang, Zhang, Di, & Zhu, 2015; Acampora, Cook, Rashidi, & Vasilakos, 2013). In the insurance field, promising applications of AI have been found in underwriting, policy administration, claims handling, and customer-advising-related chat functions. Though uses of AI are still developing and robotics is not yet mature, it is clear that groundbreaking effects are ahead. Social media also represents both potential threats and opportunities. Insurance and financial enterprises must respond actively to these. Marketing and product development options are available with the aid of social media but not in the traditional way.

Another perhaps less surprising example of digitalisation is The Payment Services Directive (PSD2), the new EU directive on payment services that came into force in February 2018. The Directive puts the financial industry, banks especially, into a totally new position. Banks must open their customer interfaces to external players that want to create good customer relations. To retain customers, banks have to give excellent customer service with comprehensive service offerings. The risk for the banks is of being left as a processor of transactions while the “customer ownership” moves to the external player. Banks have already formed alliances with “fintechs” to avoid disruptive actions by those players.

In both the non-life and life insurance areas, there is already incentive-based insurance with which a customer can, as his or her choices or

behaviours dictate, receive premium discounts or other benefits. This can be developed further. The mechanism can be applied to a broad spectrum of life insurance, in what is often called smart life insurance. Some bonus programs have incentive features, as with Finnish automobile insurance encouraging careful, accident-free driving.

The pioneer of these kinds of insurance is Discovery, from South Africa. The concept is rapidly spreading on several continents. In Finland, LocalTapiola (2016) has been particularly strong in piloting products in this field. Voutilainen and Koskinen (2017) have conducted a study on the views of Finnish customers of such solutions. So far, the reception has been mixed: some people are interested, while others have strong feelings against incentive-based insurance.

A combination product combines one or more bank products with one or several insurance products. The term “hybrid product” is used for a combination product whose bank and insurance products are tightly bound together in a logical sense, as with a loan and insurance in the loan protection insurance. A hybrid product offers balance-sheet-based earnings for both the bank and the insurance company. Hybrid products are also a driver for cross-selling; see the work of Irinja Mäenpää and Voutilainen (2011). It is possible to develop a wide variety of hybrid products for both private and corporate customers.

As to demographic trends, the birth rate in Finland has decreased very sharply (Lassheikki, 2017), and the population is aging. This has raised concerns about how the statutory pension system will cope and has led to questions as to whether pension benefits will need to be cut. While Finland’s statutory pension system is internationally acknowledged as sustainable, voluntary savings can always serve as a complementary system. The financial industry can create viable new products depending on how the taxation landscape develops.

A sweeping reform to the national social and health-care systems – the SOTE reform – is currently in progress in Finland. In connection with the SOTE reform, introduction of long-term-care insurance (a long-term savings vehicle for the costs of health care in old age) would be a feasible option. This insurance would require a public service promise and suitable new taxation. Also, fixed annuity options (single-premium lifelong pension

insurance for managing personal longevity risk) might suit the SOTE world, but it too would require suitable new taxation. The significance of health insurance in relation to health-care costs under the SOTE system remains to be seen.

The fundamental question in preparing for old age is “Should the individual’s saving be subsidised?” Decreases in tax benefits associated with individual savings and pension systems have sometimes been accompanied by the argument that individual-based systems jeopardize the legitimacy of public systems; especially the occupational pension system. We do not agree. Voluntary savings can usefully supplement the public system. However, this is an ideological and political question and such questions are a necessary part of any complex system.

## Fundamentally Changing Business Models

The megatrends described above – greater complexity in regulation and taxation and transition taking place in demographics and technology – are forcing businesses to change. This change is so complex in nature and extensive in impact that fundamental change to business models can be classified as a megatrend in its own right. This megatrend can be further analysed in terms of its constituent lower level trends: financial convergence and non-convergence, cross-selling, one-stop shopping and opening of value chains.

Cross-selling is a major trend that has emerged recently in financial alliances. With this development, bank customers are offered insurance and insurance customers are offered bank products. A bank can cross-sell life insurance to, for example, its deposit and housing-loan customers, and non-life insurance to almost any customers of other services. High estimated cross-selling potential has been a factor behind numerous mergers and acquisitions, among them the Finnish OP–Pohjola transaction in 2005 (see Voutilainen 2006). The OP Bank has utilised the cross-selling potential of banks and insurance companies with great effectiveness. In response, If P&C Insurance Ltd (publ) has claimed that customer bonuses have been used inappropriately here from the perspective of competition

legislation (see Kauppalehti, 2015). The dispute is currently under consideration in the Competition Court.

Alliances through financial conglomerates is another strong development and can be designated as a trend. A financial conglomerate is an entity composed of a mother company, at least one bank, and at least one insurance company (financial conglomerates are discussed more fully by Voutilainen, 2006). The mother company may be a holding company or itself a bank or insurance company. In a survey, Voutilainen (2006) found the financial conglomerate to be the preferred model for alliances between banks and insurance companies, according to top managers of Finnish banks and insurance companies. The advantages of this model include better customer relations management, easier building of earnings logic, better management of product development, easier reduction in excessive capacity of sales channels, lack of channel conflicts, and diversification of the business portfolio.

Customer relations management and the often complicated IT systems associated with it can be managed more efficiently when the relevant parties belong to the same group of companies. Success is influenced considerably by the power balance of the involved parties and the distribution of responsibilities. Simplification of earnings logic (i.e., distribution of profits via commissions) is more possible when one party in the alliance has authority over the other. Product development too is more streamlined when one party is superior to the other in authority. A merger often results in a reduction of worker numbers. This is more easily dealt with if one party is clearly subordinate.

As for the second-to-last benefit listed, channel conflicts occur when multiple parties of an alliance have sales channels and a salesperson working for one party disapproves of a sale made by another's salesperson, with the argument that he or she could have accomplished the same sale. Clear delineation of responsibilities is essential for addressing this factor also.

Business portfolio diversification is an undeniable priority in bigger groups of companies. Profits and losses are evened out when the conglomerate's combination of banking and insurance functions involves bank and non-life insurance operations. Conversely, bank and life insurance activities amplify profits and losses. Hence, banking and non-life insurance

are a better fit to each other in the portfolio diversification sense (for more details, see Estrella, 2001).

Forming of financial conglomerates has been an international trend since the 1990s. In Finland, there are two large conglomerates active in this field: Nordea (a Nordic group composed of a bank and life insurance companies) and OP Group. Nordea does not engage in non-life operations, while OP's activities encompass both insurance types. It should be noted there has been resistance to the trend. In the early 2000s, some giant financial conglomerates were dismantled in Europe: Credit Suisse – Winterthur and Allianz–Dresdner. The advantages noted above may not have compensated for the difficulties in the financial management of these groups.

One-stop shopping is another trend to emerge recently in the customer-service process for financial services, alongside cross-selling and hybrid products. The concept is that of offering the customer a wide assortment of bank and insurance products during the service visit (which may be in a branch office or via telephone, Net meeting, or other online interface). One-stop shopping is a driver for cross-selling (Mäenpää & Voutilainen, 2011). The customer benefit is comprehensively taking care of all financial matters during a single session; the drawback is a package deal and difficulty in comparing to competing products (cf. Voutilainen, 2006).

A closed value chain in the financial sector involves a given sales channel (e.g., a bank) offering the customers only funds of that channel's own fund company and its own life insurance company's unit-linked insurance (which are linked to in-house funds and other investment instruments). An open value chain, in contrast, means the sales channel offers also competing financial groups' products (as an alternative). Banks in Sweden have opened their value chains, while Finnish banks generally have closed value chains. Entities such as Private Bank constitute an exception. As customers grow more demanding, Finnish banks are likely to start opening their value chains.

Solvency II, discussed earlier, is relevant to this connection. Because of the high solvency capital requirements, some banks have divested their insurance holdings at least in part. It has been reported (Navarro, 2014) that the large Spanish banking group Santander sold its traditional life portfolio, with a high solvency capital requirement, and retained its risk life and unit-linked portfolios. When banks give up their insurance holdings

(either partly or totally), they often make an exclusive sales agreement covering those products. Bank divestment of insurance portfolios has not yet spread to the Nordic countries. On the other hand, almost all Nordic life insurance companies have stopped selling traditional life insurance (for further details, see Ruuskanen & Voutilainen, 2015).

Before moving on, let us expand on some remarks made in the introduction. Financial convergence can involve engaging in competition via an insurance company launching a product that performs the same task as a product of a bank (or a nearly identical one) or *vice versa*. An alternative method of financial convergence is to establish a new company in the other sector or acquire a company already active in that sector. Finland has seen an especially strong move in this regard in banks establishing or acquiring insurance companies. More generally, banks were active in financial convergence with the wealth management sector in the 1980s, before turning to the life insurance sector in the 1990s and the non-life insurance sector as the 2000s began.

Lately, banks and insurance companies have experienced a new type of convergence and competition led by retail chains. Examples of retail sector actions in finance are Carrefour in France, Tesco in Britain, and S Group (in cooperation with LocalTapiola) in Finland. For their part, banks have extended the operations' scope to non-banking sectors such as health care and automotive operations, as in the case of OP Group in Finland. With non-financial industries penetrating banking and insurance arenas while financial enterprises are entering new business areas, we can conclude that financial convergence has gone a step further: it has turned into industrial convergence.

## Discussion

Megatrends require new kind of risk management and solvency regulation. Several authors (e.g., Billio, Getmansky, Lo, & Pelizzon, 2012) have drawn attention to increased risk in insurance and finance, finding that all hedge funds, banks, broker/dealers, and insurance companies are highly interrelated. This is likely increasing the level of systemic risk in the finance

and insurance industries through a complex network of relationships that changes on multiple time scales.

Financial crises such as those of 1998, 2001, and 2008 highlight the need for holistic risk management and risk-based capital requirements. In response, Solvency II and Basel II–IV regulations permit insurance companies and banks to use internal (in-house) models for risk management and for calculating the solvency capital requirement. However, weak internal models were one cause of the crises in 2008.

The main objectives and potential benefits of using internal models for regulatory purposes include risk management that is more risk-sensitive and innovative, along with greater efficiencies in terms of capital and costs. Statistical modeling is a key part of any internal model attempts to forecast the probability distribution for the profit-and-loss account and the funds available internally (European Insurance and Occupational Pensions Authority, 2014).

As for the solvency capital requirement of insurance companies, a forecast looking one year ahead to the 99.5th percentile (VaR) is the calibration target. The modeling areas are addressed by the statistical quality test and calibration test in the Solvency II framework. For an overview, we direct the reader to the key articles of the directive and the aspect of internal models that they address:

- Art. 113: Policy for changing of the model
- Art. 114: Governance and management
- Art. 118: The use test (addressing whether the model is relevant for and used in risk management)
- Art. 119: Statistical quality standards
- Art. 120: Calibration standards
- Art. 121: Profit and loss attribution
- Art. 122: Validation standards
- Art. 123: Documentation standards

Senior management understanding of internal model and its uses is one of the key principles guiding the use test. Leaders should have an overall understanding of the internal model, as well as specific areas they use the model.

All of these standards are useful in the development and application of internal models in today's changing world, with the aim of better risk management. An internal model is principle-based instead of rule-based. That feature is of great importance, since it aids in fitting the model to the changing environment – especially with regard to the business models related to the megatrends described above.

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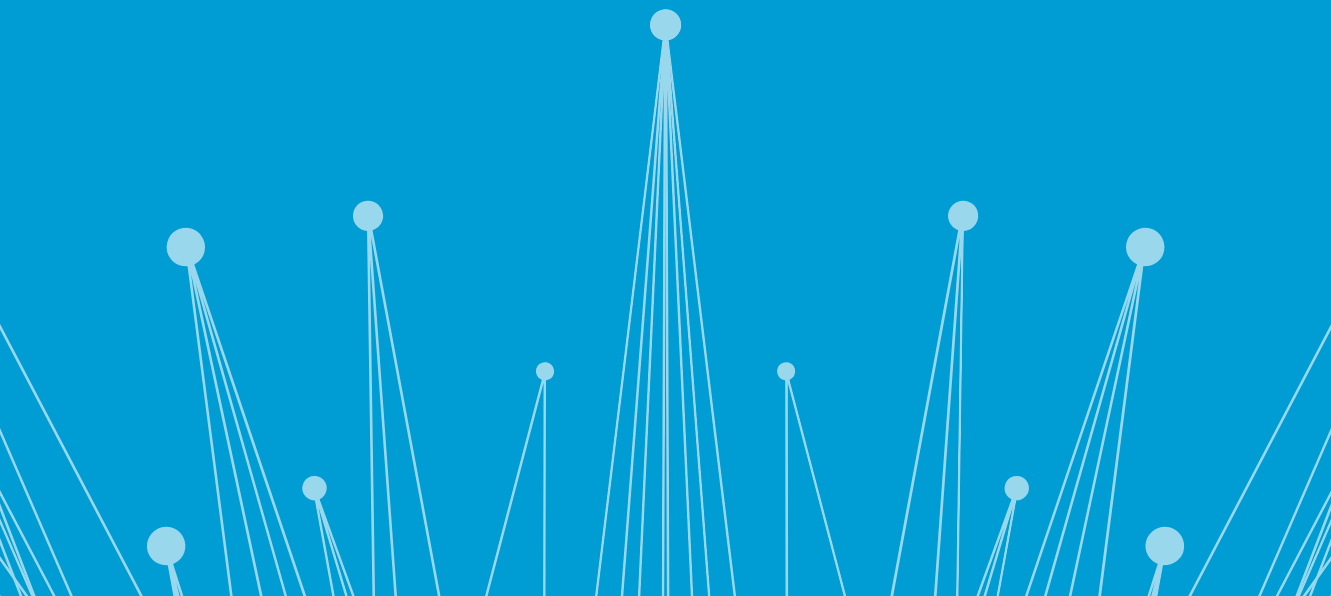
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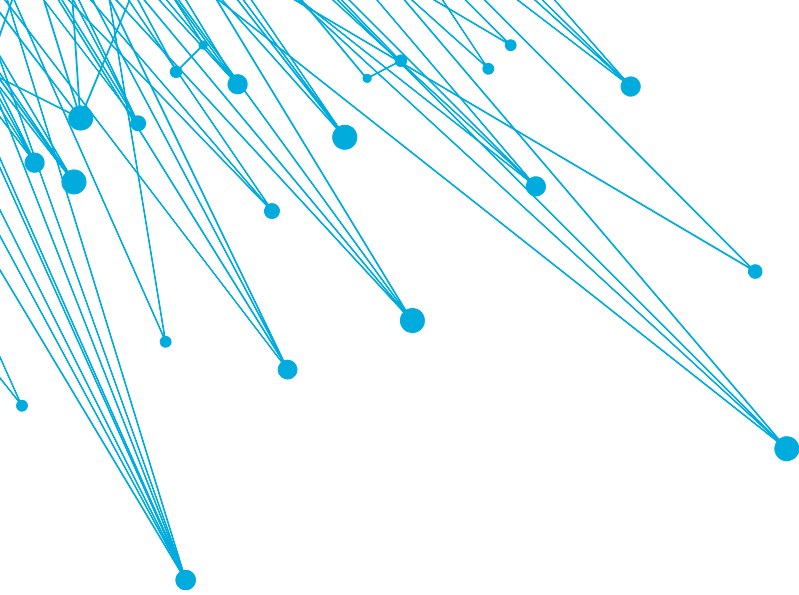
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# Afterword





## CHAPTER 18

# Leadership for Change: How Did We Get There and Where Do We Go From Here?

ARJA ROPO

Leadership field was once characterised as “still water” by a prominent scholar in the field, the late Professor Jerry Hunt, my academic mentor (personal communication; see also Hunt, 1991)<sup>1</sup>. We discussed how leadership thinking has evolved from scientific management theory with a managerialist perspective to various leader-centric models, such as leader traits, behavioural styles and leadership contingencies, all of which have been described over and over again across decades. The field seemed to be in a stalemate. As Boal and Hooijberg (2001) conclude: “little new theory was developed” (p. 515). A fundamental change in leadership views took place in the 1980s. Major societal and organisational changes and transformations were taking place, starting in the US: deregulation and internationalisation of major industries such as airline and banking, as well as mergers and acquisitions cut across major economic and societal sectors. Along with large organisational changes, the concept of *strategic leadership* was introduced. Leadership was no longer viewed as

1 Jerry Hunt was the external examiner of my dissertation in 1989 that focused on multi-level leadership change processes in the Finnish banking industry. Although having a mainstream approach to leadership, Jerry was a rebel in his time, challenging the status-quo and curious of new vistas of leadership. He supported my out-of-the box approach and invited me to work with him, first for a summer, then for an academic year 1992–93 at Texas Tech University. This was followed by many shorter meetings both in the USA and Finland. The conversation about the “still water” of leadership research took place sitting on a bench in a hallway of the business school: Jerry was originally going out and I was going in. We ended up talking the whole morning.

a supervisory function but as a more profound factor for organisational performance: Leadership matters, as the saying goes. The strategic nature of leadership was first emphasised by Hambrick and Mason (1984) in their Upper Echelon Theory, followed by an increased interest in the study of chief executives, top management teams and boards of directors (Daily & Schwenk, 1996; Finkelstein, Hambrick & Cannella, 2009; Hambrick, 1987). Charismatic (e.g. Conger & Kanungo, 1987; Shamir, House & Arthur, 1993), visionary and transformational leader theories (e.g. Bass, 1985; Bass & Avolio, 1994) were labelled as the “new leadership theory” (Bryman, 1992). Strong hierarchical leader-centricity continued to characterise the mostly North-American strategic leadership literature.

Beyond acknowledging the strategic importance of leadership at the top level, a broader organisational and environmental *context* was increasingly recognised to play a major role in understanding leadership as a phenomenon. Leadership in context has been addressed in several special issues of journals, such as *Human Relations* (Liden, Antonakis & Fairhurst, 2009), *Journal of World Business* (Steers, Sanchez-Runde & Nardon, 2012) and *Leadership* (Schedlitzki, Case & Knights, 2017).

In leadership research, context is understood in various and distinctive ways. Although they advocate context and leadership differently, Fiedler's (1967) early contingency model of leadership and House and Mitchell's (1974) path-goal theory of leadership are both founded on Lewin's (1947) system theoretical notion that human behaviour is contingent on context. While Fiedler suggests that leaders need to be fitted to situations according to their rather stable leadership styles, House and Mitchell argue that leaders need to adapt their style according to the situation. At the time, it was a breakthrough idea that leadership does not occur in a vacuum, but the context needs to be considered. This view is particularly furthered in cultural leadership research considering both global, national and organisational cultures (e.g. House, Hanges, Mansour, Dorfman & Gupta, 2004; Schein, 1990; Smith & Peterson, 1988).

Multi-level leadership approaches provide ways to address leadership in context as an organisation hierarchical issue (e.g. Chun, Yammarino, Dionne, Sosik & Moon, 2009; Hunt & Ropo, 1995) or as a dynamic interaction between individual, organisational and environmental levels

(Ropo, 1989). To advance relational interactions, Carter, DeChurch, Braun and Contractor (2015) offer a social network approach to leadership by emphasising complex, patterned relational processes that interact with the embedding social context. Uhl-Bien, Marion and McKelvey (2007) introduced a complexity theory of leadership around the idea of complex adaptive systems (CAS) emphasising the constant flux of living systems (see also Hunt & Ropo, 2003). Uhl-Bien et al.'s framework suggests three entangled leadership "roles", as they call them: adaptive, administrative and enabling leadership. These "reflect a dynamic relationship between the bureaucratic, administrative functions of the organization and the emergent, informal dynamics of complex adaptive systems" (p. 298). CAS "refers to the nature of interactions and interdependencies among agents (people, ideas etc.), hierarchical divisions, organizations and environments" (p. 299). According to the authors, CAS and leadership are socially constructed. The complexity approach to leadership emphasises emerging processes in context and interactive dynamics. First and foremost, it stresses the distinction between leader and leadership. From this perspective, leading change in a complex world is a collective effort and takes place with and/or without formal leaders. Sutherland (2015) introduces the notion of leaderless leadership, claiming that, if there are no leaders it does not mean there is no leadership.

As the complexity of leadership contexts have grown, the foci and emphases in leadership and organising need to change: from rigid, hierarchical and leader-centric organising where the outcome spurs from top-down influence, division of labor and centralised control and performance measures, toward swift and flexible organising, where interaction, interdependency of multiple actors and ambiguity are the prominent features of organisational and social life. Along with this perspective, pluralist leadership theories (e.g. Denis, Langley & Sergi, 2012) where leadership functions are dispersed and mundane interactions are brought to the fore, have recently gained footage. Leadership is here conceived as practice (Carroll, Levy & Richmond, 2008; Crevani, Lindgren & Packendorff, 2010; Raelin, 2016) rather than as influence of the leader on followers. The leadership-as-practice perspective continues to maintain that relational and collective effort

is deeply rooted in context (for relational leadership approaches, see also Dachler & Hosking, 1995; Uhl-Bien, 2006; Uhl-Bien & Ospina, 2012). These post-heroic leadership theories provide ample ways to address the dynamism of a complex world and leading change.<sup>2</sup>

## Comments on the LFC Framework and Suggestions for Future Study

This book develops and discusses a transdisciplinary framework for leading change in a complex world. First, it points out that contemporary change processes are complex and systemic. Second, it argues that issues and problems crossing traditional institutional boundaries cannot be resolved by a single actor or sector. Third, it shows that complex environments are marked by ambiguity and uncertainty. As general as the framework is, the overall starting point of the model follows the argumentation of recent developments in leadership research and broader social discussions in contemporary (western) society.

The proposed framework describes the complexities of the world as systemic, interconnected and unpredictable. In organisations and as a society we are confronted relentlessly with wicked problems that are unstructured and cut across all sectors of social life. The book presents a many-sided picture of the world in the midst of fundamental challenges, such as an aging population (Salminen, Chapter 5), pluralist beliefs and values

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- 2 My collaboration with Jerry Hunt lasted about fifteen years and focused on multi-level leadership and complexity issues. These were methodologically based on qualitative, grounded theory-driven case studies that was all new to the field at the time. When I began to be interested in the constructionist approach and especially aesthetic epistemology in the early 2000s, we slowly drifted apart. There was the annual Academy of Management Meeting in Hawaii in 2005 where I had a PDW on the aesthetic leadership approach with a few colleagues. I recall Jerry saying: “I understand that something new needs to be developed in the field, and you guys may be on something, but DO NOT call it AESTHETICS”. During the same meeting, another colleague said that the term “bodily” reminds him of bodily fluids, not of scholarly ways of knowing. These two utterances give a good indication of how deeply-rooted the positivist perspective of leadership was at the time – and continues to be.

(many chapters in this volume), digitalisation (Voutilainen and Koskinen, Chapter 17; Nieminen, Chapter 6), the unequal roles of rural and urban regions and ways of life (Heikkinen, Nieminen, Kujala, Mäkelä, Jokinen & Lehtonen, Chapter 2; Karppi & Vakkuri, Chapter 3), and in financial and political status (Juutinen, Chapter 16). If not addressed properly, these fundamental issues will eventually create problems in maintaining peace and security among nations and populations. Juntunen and Virta (Chapter 4) identify this context and step out from the traditional security logic by introducing resilience as an intersecting activity of various societal processes and policies.

Everything is interconnected. How to deal with the complexity of these problems? Who decides where to go, how are the problems framed, choices made and on which criteria outcomes are evaluated? From whose perspective and interests? To understand the complex change context, the book suggests a relational approach. It emphasises that multiple actors are needed to resolve these problems. Formal leaders are needed, but this is not enough. Everyone's input is important whether they be ordinary consumers or leaders in business or political life.

Kujala, Lehtimäki & Freeman (Chapter 7) emphasise a broad stakeholder perspective, while Yrjölä, Kuusela, Närvänen, Rintamäki and Saarijärvi (Chapter 8) point out customer-orientation in leading change. The latter approach leads us to ponder who are the customers in different situations and to what extent customer values are homogenous. Rannisto and Saloranta (Chapter 10) write about the importance of evaluating whether the direction of change follows the objectives. This warrants a consensus regarding the objectives of change as well as performance measurement (Rajala, Chapter 11). Both of these views can be challenged in a complex world.

In a democratic society, it is reasonable to assume that leadership in a complex world cannot reside in the hands of a few. This is also the view underlying the relational leadership perspective and pluralist leadership advocates. But how does this resemble the current situation in organisational, economic and political spheres? We live in a great divide of economic and political power regimes, technological innovations disrupting old industries and creating new ones, inequalities of human rights and living conditions. These developments create ambiguity, uncertainty and

tensions between people, organisations, institutions and societies. They can also create stagnation in political and organisational decision-making and defensive frontiers in society. The call for charismatic leaders, or saviors of the world, typically arises in times of crises and chaos. Every time in history such leaders have appeared, with or without credentials other than strong self-reliance and self-efficacy. With their (sometimes even toxic) charismatic and seductive leadership, they frame the world in simplistic terms and provide quasi-solutions to fix problems.

While being analytically well-grounded and credible, the elite's complexity framework of the world is founded on intellect and rational thinking, whereas the human experience of it is emotional and embodied. This is the fundamental challenge current scholarly theories face in trying to make sense of the societal and organisational complexities of problems. Acknowledging a different way of knowing could open up a new avenue to conceive leadership and change in a complex world. In addition to the

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traditional way of developing knowledge through the intellect, knowing in and through the body by aesthetic senses, feelings and emotions, as well as memories and histories offers an alternative way to comprehend human and social life. Embodied ways of knowing and developing scholarly knowledge of social phenomena were originally introduced in gender studies, but also developed in aesthetic organisational theory literature (e.g. Strati, 1999). Recently, specific fields such as leadership have adopted embodiment and aesthetic notions to rethink old leadership questions (Ladkin, 2010) through an aesthetic and embodied lens (Hansen, Ropo & Sauer, 2007; Ladkin & Taylor, 2010;

Ropo & Salovaara, 2018; Ropo, Parviainen & Koivunen, 2002; Ropo, Sauer & Salovaara, 2013; Ropo, Salovaara, Sauer & De Paoli, 2015; Sinclair, 2005; Taylor & Hansen, 2005).

What embodied leadership for change in systemic, emerging processes would entail is worth exploring in the future development of the LFC framework. Listening to the narratives of various stakeholders, both

ordinary people and those in positions of power, and providing fora for mediation between conflicting views might give genuine insights into the many ways the complex world is conceived and experienced.

The framework developed in this book, as well as many of the cases examined in the individual chapters, challenges the traditional view that changes are rationally planned and executed under the control of wise and competent leaders. Even if this was the case, the magnitude of the problems and their connectedness could not be solved by a small number of executives, no matter how wise they are. The LFC framework suggests, in contrast, that changes are emerging continuously and non-linearly. The world is on the move all the time, in different sectors of society and at different levels of organisations and institutions. The multi-level leadership approaches and complexity theory of leadership touched upon earlier might give some advice to structure and comprehend complex systemic change conceptually and practically. As Hunt and Ropo (2003) state: “Although abstract and complex in and of themselves, chaos and complexity theories provide the underlying notions for dynamic systems” (p. 316). They assert that complex dynamic systems cannot be represented by reductionism. Instead they need to be viewed as a holistic synergy; as more than the sum of its parts. Synergetic forces create an emerging order from self-organising interactions and resonances between the units in the system. Kaufman (1993) used the term “order is free” to point out that the order in dynamic systems is formed from the bottom up with no overriding central ordering force from above (Hunt & Ropo, 2003, p. 318).

Consequently, self-organising is a model that has been increasingly suggested as a way to lead change in a complex world. While introducing the perspective of systemic self-organising, Griffin (2002) links it with ethics in everyday social interaction, an issue that becomes central in leading change in a complex world. Another significant issue is the technology of communicating. Ten years ago, Shirky (2009) claimed that the tools of cooperating are not solely in the hands of governments and institutions. He explored how technology can empower social and political organisers. Martela and Jarenko (2017) go as far as to claim that self-organising is vital for organisational performance. However, they emphasise there are necessary conditions for self-organising to be successful: self-interested

actors, the possibility to use one's own core competence, knowledge sharing, and mechanism for preventing free-riding.

While considering dynamic change as emergent, a processual view needs to be adopted in the LFC framework. Recently, processual organisation research has been given great attention both in publications (e.g. Helin, Hernes, Hjorth & Holt, 2014; Langley, Smallman, Tsoukas & de Ven, 2013; Tsoukas & Chia, 2002) and in conferences (e.g. the Standing Work Group at the EGOS colloquium). In contrast to the traditional entitative view of process as an unfolding sequence of events or states, processual ontology is increasingly applied to grasp the "becoming" of phenomena where various agents are actively engaged in material-discursive practices. How to conceive, study, write about and practice a truly processual (Abdallah, Lusiani & Langley, 2018) perspective to leading change in a complex world would need to be seriously addressed to further develop the framework and its theoretical and practical relevance. Materiality and performativity have been introduced as central in process studies (e.g. Barad, 2003). The LFC framework might benefit from the insights of the "material turn" in organisation (Carlile, Nicolini, Langley & Tsoukas, 2013; Dale, 2005; Orlikowski & Scott, 2008) and leadership studies (Hawkins, 2015; Oborn, Barrett & Dawson, 2013; Pullen & Vachhani, 2013; Ropo et al., 2013). An important input to understand the sociomaterial nature of change is the "Wastebusters" (Närvänen, Mattila & Mesiranta, Chapter 14) project to reduce food waste.

In summary, the LFC framework developed in the contributions to this book provides the beginnings to conceive a world view that is systemic and overarching. *First*, it identifies some key characteristics of the changing contexts of human life. *Second*, it holds a positive undertone that state-of-the-art can be challenged and changed, be it power inequalities or challenges in reducing food waste. *Third*, no matter how conservative the notion is, it also makes the important observation that change calls for continuity. Leadership for change is about people, and people also need balance and continuity. The LFC framework introduced in this book provides ways of disturbing the "still water" of leadership by bringing transdisciplinary views to transcend, understand and lead in the complex and dynamic world.

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# Contributors

**Julia Bethwaite** is Doctoral Researcher in International Relations at the Faculty of Management and Business, Tampere University. She explores forms of power and the role of art in international relations. She is also Academic Coordinator of the Master's Degree Programme in Leadership for Change at the Faculty of Management and Business, Tampere University.

**Dr. R. Edward Freeman** is Professor at the University of Virginia's Darden School of Business. He is best known for his award-winning book, *Strategic Management: A Stakeholder Approach*. He is the author and editor of more than 20 volumes in the areas of stakeholder management, business strategy and business ethics and has written more than 100 articles in a wide variety of publications. He is co-editor-in-chief of *Journal of Business Ethics* and a lifelong student of philosophy, martial arts and the blues.

**Dr. Anna Heikkinen** is Post-Doctoral Researcher at the Faculty of Management and Business, Tampere University. Her research interests include sustainable development in and around organisations, urban nature, and discourse analysis. Her work has been published in edited volumes and international journals such as *Journal of Business Ethics*, *Business Communication Quarterly*, and *International Journal of Knowledge Management Studies*.

**Dr. Ari Jokinen** is Adjunct Professor and University Researcher of Environmental Policy at Tampere University, Faculty of Management and Business. His research focuses on pathways of urban sustainability seen from the intersection of humans, nature, and technology. His publications deal with urban planning, the politics of nature, knowledge, circular economy, urban ecology, and biodiversity governance.

**Tapio Juntunen** is a Doctoral Researcher at the Faculty of Management and Business, Tampere University. His recent academic publications have dealt with Finnish foreign policy, nuclear disarmament, interstate trust and the resilience-security nexus. He is currently working as a researcher in a project “Comprehensive resilience governance: strengthening individual adaptation capacities as part of comprehensive security framework” (CO-RESONANCE) funded by the Finnish Government.

**Marko Juutinen** is Doctoral Researcher at the Faculty of Management and Business, Tampere University, researching the legitimacy of governance in the recent EU-Canada trade agreement. He is a member of the research projects “Regional Challenges to Multilateralism” funded by the Kone Foundation and “Media systems in flux: The challenge of the BRICS countries” funded by the Academy of Finland. His work has been published in *Journal of the Indian Ocean Region*, *Poliittinen talous* [Political Economy] and *Kosmopolis*. He has worked as a visiting fellow at the Observer Research Foundation and is currently working as a visiting researcher at the Swedish Institute for International Affairs.

**Dr. Anni Kangas** is University Lecturer in International Relations at the Faculty of Management and Business, Tampere University, and the Academic Director of the Master’s Programme in Leadership for Change. Her current research focus is on the world politics of urbanisation and the role of art and popular culture in international relations. Her research has been published in journals such as *Millennium: Journal of International Studies*, *International Feminist Journal of Politics*, *Global Networks*, and *Journal of International Relations and Development*.

**Dr. Ilari Karppi** is Adjunct Professor and University Lecturer in Regional Studies. His key research interests focus on smart urbanity with special reference to planning of sustainable urban environments and visionary leadership in urban development/renewal processes. He is also interested in field methods for studying sensemaking in local and regional land-use and mobility planning as well as transit-oriented development.

**Dr. Lasse Koskinen** is Professor of Insurance Science at the Faculty of Management and Business, Tampere University. Koskinen has published papers in international refereed journals in several fields e.g. insurance, finance and signal processing. His current research interests include risk and investments management, insurance solvency regulation, and pension / insurance systems. Koskinen has been a member of Internal Model Committee of European Insurance and Occupational Pensions Authority (EIOPA).

**Dr. Johanna Kujala** is Professor of Management and Organisation at the Faculty of Management and Business, Tampere University. She has extensive teaching and supervising experience that covers courses at all university levels as well as adult and continuing education. She has published over 50 scholarly articles in international peer-reviewed journals and volumes. She is a member of the review boards of *Journal of Business Ethics* and *Business Ethics: A European Review*. Her current research interests focus on stakeholder engagement and value creation, moral decision-making, and case studies on corporate responsibility and sustainability.

**Dr. Hannu Kuusela** is Professor of Marketing at the Faculty of Management and Business, Tampere University. His research interests lie in consumer behaviour and marketing strategy. In addition to textbooks and book chapters focusing on services marketing, customer value and risk management, he has published articles, for example, in *American Journal of Psychology*, *European Journal of Marketing*, *Industrial Marketing Management*, and *Journal of Service Management*.

**Dr. Harri Laihonon** is Research Director at the Faculty of Management and Business, Tampere University. His research interests focus on knowledge and performance management especially in complex organisational settings like service systems and hybrid organisations. Within these fields, his recent projects have investigated how performance information can be more efficiently used to support decision-making and organisational learning through performance dialogue.

**Dr. Hanna Lehtimäki** is Professor of Management at the University of Eastern Finland. Her research examines innovation management, strategic management, leadership, social networks, appreciative methods in organisational renewal, and stakeholder management. Her research articles have appeared in academic journals internationally. Her book *The Strategically Networked Organization: Leveraging social networks to improve organizational performance* discusses relational leadership in networked business.

**Outi Lehtonen** holds a Master of Science degree in Business Administration. She is currently working as a researcher at the Faculty of Management and Business, Tampere University, Finland. Her research interests include social enterprises, innovations, social innovations, stakeholders, and the societal impact of the business sector.

**Dr. Antti Lönnqvist** is Dean of the Faculty of Built Environment at Tampere University. His scholarly interests relate to leadership and management practices in a knowledge-based society. He currently serves as the co-editor of *Knowledge Management Research & Practice* journal.

**Dr. Malla Mattila** works as University Instructor in the Master's Programme in Leadership for Change at the Faculty of Management and Business, Tampere University. Besides food waste reduction, her research interest areas include technology commercialisation, sociomateriality, emerging business networks and (sustainable) business models. She has published her research in such scholarly periodicals as *Time & Society*, *Journal of Cleaner Production*, *IMP Journal*, and *International Journal of Entrepreneurship and Innovation Management*.

**Dr. Nina Mesiranta** is Postdoctoral Researcher in the Wastebusters research project focusing on food waste reduction at the Faculty of Management and Business, Tampere University. Her research interests are also related to interpretive consumer research, especially consumer online shopping experiences and social media. She has published in *Journal of Fashion Marketing and Management*, *Journal of Retailing and Consumer Services*, and *Advances in Consumer Research*.

**Dr. Hannele Mäkelä** currently works as a Senior Researcher in Accounting at Tampere University. She is interested in the role of business in society and the impact of accounting in our everyday lives. Her research is primarily in the areas of sustainability and critical accounting studies, examining the relationships between accounting and society and drawing on literatures from sustainability, accountability, ethics and critical studies. Currently she is interested in how alternative and more inclusive understandings of economic operation encourage sustainable development.

**Dr. Jere Nieminen** is Post-Doctoral Researcher in Management and Organisation at the Faculty of Management and Business, Tampere University. His research topics focus on the politics of nature and especially on biodiversity issues, ecosystem services, nature-based solutions and nature conservation. In his research, he uses qualitative research methods, particularly the ethnographic approaches that enable the observation and analysis of the materiality of practices.

**Dr. Martti Nieminen** is Post-Doctoral Researcher at Tampere University. His main field of research is international income tax law. He is the coordinator of the Academy of Finland funded research project “Transformation of the International Tax System”. He writes regularly for leading international and European tax law journals such as *Intertax*, *European Taxation*, *Bulletin for International Taxation* and *Tax Notes International*.

**Erkki-Jussi Nylén** is Doctoral Researcher in Environmental Policy at the Faculty of Management and Business, Tampere University. He has been educated as a geologist and has a master’s degree in administrative science. In his doctoral dissertation, he is analysing the promotion of circular economy in Finland. His research interests focus on sustainability transitions, steering of societal development, politics of waste and politics of production and consumption.

**Dr. Elina Närvänen** is University Lecturer of Marketing at the Faculty of Management and Business, Tampere University and the leader of the Wastebusters research project, focused on the reduction of food waste (2016–2019). Her research interests relate to consumer research, particularly from a sociocultural perspective. She has studied consumption and brand communities, sustainable consumption practices, food consumption and qualitative research methodologies. Her research has been published in *Journal of Service Management*, *European Journal of Marketing*, and *Consumption, Markets & Culture*.

**Dr. Pasi-Heikki Rannisto** is Professor of Health Care Management at the Faculty of Social Sciences at Tampere University, and Research Director at the Synergos research and training centre at the Faculty of Management and Business, Tampere University.

**Tomi Rajala** holds a Master of Science degree in Administrative Sciences and is a specialist in local public economics. Currently, he works as a project researcher in the Hybrid Organisation project and as Lecturer in Public Financial Management at the Faculty of Management and Business, Tampere University. He is also pursuing doctoral research in performance management in the public sector context. Previously he has worked in municipalities and for Statistics Finland in the area of government productivity statistics.

**Dr. Tapio Raunio** is Professor of Political Science at Tampere University. His research interests cover legislatures and political parties, the Europeanisation of domestic politics, semi-presidentialism and the Finnish political system.

**Dr. Timo Rintamäki** is University Lecturer in Insurance Science at the Faculty of Management and Business, Tampere University. He studies consumer behaviour in general and customer value in particular, including experiential and symbolic aspects of consumption. His research has been recently published in *International Review of Retail, Distribution and Consumer Research*, *Journal of Retailing and Consumer Services*, and *AMS review*.

**Dr. Arja Ropo** is Professor Emerita of Management and Organisation at the Faculty of Management and Business, Tampere University, Finland. Her continuing interest is leadership and change. She advances leadership theory from a sociomaterial perspective where leadership is conceived as an embodied and performative process between the human and the material. Her work has appeared in *The Leadership Quarterly*, *Leadership*, *Scandinavian Journal of Management*, *Journal of Organizational Change Management*, *Journal of Management & Organization* and *Journal of Corporate Real Estate*, among others.

**Paula Rossi** is Doctoral Researcher and University Instructor in Administrative Sciences at the Faculty of Management and Business, Tampere University. She holds a Master of Science degree in Administrative Science, with a focus on leadership psychology. In her research, Rossi explores the role of conflicts in developing public services, with focus on complexities of everyday work, conflicts, organisational development, leadership and management, storytelling in organisations and studying experiences.

**Dr. Janne Ruohonen** is Professor of Business Law (pt) at the University of Eastern Finland and University Lecturer of Business Law at Tampere University. He is also Adjunct Professor of Company Law at the University of Turku. His research is focused on company law and audit law. His doctoral thesis dealt with limited liability company's profit distribution and solvency testing. Ruohonen is member of the Law and Tax Committee of the Tampere Chamber of Commerce and Industry.

**Dr. Hannu Saarijärvi** is Professor of Marketing at the Faculty of Management and Business, Tampere University. His research interests lie in value co-creation, customer value, service logic and customer relationship management. He has published articles in journals such as *Industrial Marketing Management*, *International Journal of Information Management*, *European Business Review*, and *Journal of Strategic Marketing*.

**Dr. Hanna Salminen** is University Lecturer at the Faculty of Management and Business, Tampere University. Her research interests relate to aging employees, human resource management and organisational behaviour. She has published articles in journals such as *International Journal of Organizational Analysis*, *International Journal of Work Innovation*, *Knowledge and Process Management*, *Equality, Diversity and Inclusion: An International Journal*, *Lifelong Learning in Europe*, *International Journal of Research Studies in Management*.

**Anna Saloranta** is Doctoral Researcher in Health Systems Research at the Faculty of Social Sciences, Tampere University where she studies the diffusion of innovations in the social and health care sector. She is also a researcher at the Synergos research and training centre at the Faculty of Management and Business, Tampere University.

**Dr. Jarmo Vakkuri** is Professor at the Faculty of Management and Business, Tampere University, and the director of the research group on Public Financial Management. His research concentrates on performance measurement in public administration, theories of decision-making, hybrid organisations and governance, and urban policy-making. He is the director of the HYPER project (Performance measurement for hybrid governance), and one of the directors of the “Beyond MALPE coordination: integrative envisioning” (BEMINE), both funded by the Academy of Finland.

**Dr. Sirpa Virta** is Professor of Security Governance and Management at the Faculty of Management and Business, Tampere University. She is research director of NordSTEVA, the Nordic Centre of Excellence on Societal Security (2015–2019) and leads the TASER (Tampere Security Research) group. She is also responsible for the Master’s Programme of Security Governance and Management (1998–2018) and the new international Master’s Programme of Security and Safety Management (SAFER) from 2019 onwards.

**Dr. Raimo Voutilainen** is Adjunct Professor of Insurance Science at the Faculty of Management and Business, Tampere University. He is also Adjunct Professor of Operations Management at the School of Business of Aalto University. He has worked in the insurance and banking sectors for 37 years and is specialised in building cooperation between the banking and insurance industries. He has published studies on insurance science and established insurance or financial enterprises in Finland and in the Baltics. He has also acted as a managing director for several insurance companies.

**Dr. Mika Yrjölä** is University Lecturer of Marketing at the Faculty of Management and Business, Tampere University. His research background is on executive decision-making, business models, digital services and multi and omni-channel retailing. He has published his research in *Journal of Retailing and Consumer Services*, *European Business Review*, and *Journal of Business and Industrial Marketing*.









# LEADING CHANGE IN A COMPLEX WORLD

## Transdisciplinary Perspectives

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This transdisciplinary book offers tools for leaders and analysts of leadership to navigate complex and interconnected settings. It proposes an analytical framework based on **complexity**, **relational leadership**, and **dynamic change**. Individual chapters examine these ideas in relation to topical societal, organisational and business challenges such as the changing global security environment, urbanisation, demographic changes, and business-government relations. The leadership roles of heads of states and societal stakeholders are analysed and versatile leadership and management practices, from conflict management to evaluation are introduced. The possibilities for change are examined through global megatrends, shifting global power blocs, changes in consumer practices, as well as those emanating from abstract concepts such as the circular economy.