The Development of 'Sustainability-Banking' Capability in the Changing Institutional Environment: The Case of RBS

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ABSTRACT

The recent financial crisis of 2008 has caused significant turbulence in the financial sector and the strategic direction of a number of banking organizations. To survive situations characterised by adversity and changing institutions, various organisations in the sector needed to renew their legitimacy with diverse groups of stakeholders and to refocus their business models into more sustainable ones requiring change and development in the company's operational capabilities. Recent scholarly interest in the study of organisational and more specifically dynamic capabilities has focused on exploring the development processes through such capabilities emerge.

However, the recent literature has been focused much more on the conceptual nature of capabilities rather than on offering empirically grounded accounts on how a specific type of an organisational capability is developed and transforms in line with the changing institutional contexts, and fluctuating levels of environmental uncertainty. Scant attention has been paid to the relationship between institutional change and the capability development process. In order to shed light on the development of such capabilities, this study specifies the micro-foundations of the capability development process and illustrates the relationships between the development process and the changing institutional context through a multilevel of analysis. Explicitly, it aims to find out how and what micro-foundations participate in the development of a sustainability-banking capability and how the changing institutional and market contexts and its dynamics influence the development process.

This work is a phenomenon-driven study, which centres its empirical and theoretical contributions in the exploration of the case of the Royal Bank of Scotland – a particularly interesting case of an organisation, which has survived a near-death experience during times of immense institutional turbulence. The selected company case is special for the richness of organisational changes that assisted in tracing the main events and processes in which dynamic capabilities emerge. Inductively, this research study found 'sustainability-banking' capability to be conductive for the explored case company's adaptation in the rapidly changing context of the financial crisis of 2008. To respond to the research questions and meet the research objectives,

the work follows a process research methodology, involving the triangulation of multiple sources of primary and secondary qualitative data, collected both in real-time and retrospectively of the observed longitudinal period 2004-2012.

The adopted process analysis revealed three key phases through which sustainability banking capability which emerged in the context of Royal Bank of Scotland, accordingly Phase One: The Philanthropic route (2004-2007), Phase Two: The Responsive engagement route (2008-2009) and Phase Three: The Stakeholder co-creation route (2010-2012). Each one of the charted phases of development pictures diverse set of micro-foundations constituted the company's capability diachronically (over time) and synchronically (across levels and layers of learning).

The research indicates that the capability development process is a complex process moderated by changing market environment and the presence of a number of institutional and market inhibitors and accelerators which moderate the occurring micro-foundational transformations. By illustrating the transformations in the micro-foundations of the explored capability, the research work casts light on the temporal changes that accompany capability learning, which affect the capability nature and unfold into different forms of capabilities – ordinary, transitional and dynamic. The key finding of this study is that the variability in the alignment of micro-foundational constructs defines the form and the function of the observed organizational capability – sustainability-banking capability. Although drawing on macro-institutional perspective to demonstrate the types of institutional pressures, which trigger changes in individual and organizational behaviours and processes, this research study contributes primarily to the organisational capability literature.

First, the main contribution of this thesis is the development of a novel process model perspective of sustainability-banking capability in the context of institutional and market changes. The process model indicates the interactions between individual-based, process-based and structure-based micro-foundations and how this interaction, alignment, between their capability micro-foundations changes in the course of social, political and regulatory disruptions in the sector, which either inhibit or accelerate these transformations.

Secondly, the observed processes of interaction suggest how an operational capability can escalate to become a dynamic capability, which has not been mapped in the field of study. Previously, scholars (e.g. Helfat and Winter, 2011) have suggested conceptually the possible existence of dual-purpose or multiple variant capabilities where the complication of drawing a line between operational and dynamic capabilities occurs due to the speed of change they enable in organisations. Within the context and content of study – sustainability-banking capability at the Royal Bank of Scotland, this study demonstrates the existence of what is entitled in the thesis as a "transitional capability", which responds to the recent call for research work in this domain.

Scholars have suggested that sometimes the low pace in which changes occur can disguise one capability as operational but in fact it can have a dynamic variant when it is explored longitudinally. The analysis of the findings in the second stage of capability development proves that the contrary can be also true. Although previously the literature has associated radical changes somehow instantly with dynamic capabilities, the analysis suggest that extremely turbulent exogenous shocks can lead to internal disturbances and misalignment in the relationship between some of the micro-foundations composing them which on the other hand can constrain the level of impact that the capability under study has in the process of organisational adaptation and development.

The third contribution of this work is methodological which is accomplished by the adoption of a process methodology and a 'hybrid' strategy of processual data analysis, which complements the existing variance research stream in the study of organisational capability, which is predominately positivist in nature.

Lastly but not the least important, this phenomenon-driven research contributes to the recent call in the strategic management field for exploring "bigger issues", such as the global financial crisis which are often a "window of opportunity" and lead to relevant knowledge for managerial practice, citizens and policy makers.

DECLARATION

In accordance with the University of Edinburgh Regulations for Research Degrees, the author declares that:

(a) This thesis has been composed by the author and the work contained herein is my own except where explicitly stated otherwise in the text

(b) It is the result of the author's own original research

(c) It has not previously been submitted for any other degree or professional qualification except as specified

(d) Preliminary results of this research were presented at international conferences and workshops as noted in the list of Publications and Refereed Conference Papers.

Signed: Veselina P. Stoyanova

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“Banking is a very treacherous business because you do not realize it is too risky until it is too late, it is like calm waters that deliver huge storms”

Nassim Nicholas Taleb

DEDICATION

...To a HERO

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CHAPTER ONE: INTRODUCTION OF RESEARCH

"No phenomenon is a phenomenon until it is an observed phenomenon" Niels Bohr

This chapter presents the overall picture of this research study. It starts with a brief overview of the phenomenon – the Global Financial Crisis of 2008, which inspired the research work and how it is central to advancing current gaps in the literature of organizational capabilities. The next section introduces the theoretical underpinnings that offered a strong starting point for addressing the research question of the study, namely how companies develop a specific type of a dynamic capability through time and through different degree of institutional dynamism. In the following section, the more specific research objectives and questions are discussed in line with the identified gaps in the literature of organizational capabilities. Next, key constructs used in the thesis are presented in order to facilitate the reader in understanding the author's assumptions when referring to a specific concept. The chapter continues with a justification of the choice to conduct a process research design instead of other possible research approaches and concludes with an outline of the subsequent chapters of the thesis and a diagrammatic representation of its structure.

1.1 Background and Motivation for the Research

The purpose of this dissertation is to understand capability development in the changing institutional environment. This objective is empirically, theoretically and methodologically inspired based on the persisting gaps in the organizational capability literature. Nevertheless, it is also a phenomenon-driven research provoked by the socio-economic changes of the Global Financial Crisis and the survival mode in which it placed many successful financial service organizations. Next, background information about the underlying phenomenon is presented; it is followed by a discussion of the dynamic capability view and the identified gaps.

Crises are relatively rare, low probability, high consequence events, which hold significant threats for an organization (Weick, 1988). They are highly uncomfortable situations that cause managerial frustration and panic when trying to accomplish ordinary day-to-day activities. Critical events, which unfold rapidly and simultaneously impact numerous industries, businesses and multiple stakeholders are rarer and even more extreme (Agarwal, 2009; Muller-Seitz and Macpherson, 2011). Concepts such as critical event, disaster, misconduct, and catastrophe are often used synonymously to describe them (Buchanan, 2011).

Besides their rareness, organizational or environmental crises also differ in their degree of 'extremeness', which is time dependent and changes in the sequence of events. A high in 'extremeness' crisis is a "discrete episode or occurrence that may result in an extensive and intolerable magnitude of physical, psychological, or material consequences to – or in close physical or psycho-social proximity to –organizational members" (Hannah et al., 2009, p.898 cited in Buchanan, 2011, p.276). Interrelatedness to the organizational context in which they emerge and unfold is another significance of such critical events for every business. These latter characteristics are tightly linked to environmental dynamism referred to as the volatility, namely the rate of change and the degree of uncertainty, which occurs in a given organizational setting (Miller and Friesen, 1983; Allen et al., 2007).

Although exogenous shocks are of rare occurrence, even fewer can be defined as being high in terms of extremeness. The Global Financial Crisis of 2008 is an example of such an event. In the last few years, this crisis created a challenging context for businesses, small and large, multiple stakeholder groups and governments around the world (Crotty, 2009; Agarwal et al., 2009; Davis, 2009; Hausman and Johnston, 2014). Soon after it emerged in the United Sates, the dramatic turmoil resulted in the collapse of Lehman Brothers and in a number of government bailouts of financial institutions such as Goldman Sachs, and Morgan Stanley. In the United Kingdom, the first casualties of the financial crisis were Northern Rock bank and Bradford and Bingley bank, which were nationalized in 2008 (Walker, 2010). At the time, the UK's HM Treasury and Bank of England were looking at these banks as single base cases though soon it became evident that this was just the beginning of one of the most challenging periods in global financial services history (HM Treasury, 2012).

Undoubtedly, the global crisis of 2008 caused a significant turbulence in the financial sector and the strategic direction of a number of financial organizations similar to the above examples, previously famous for the efficient management of their organizational resilience mechanisms and a high reputation among stakeholder groups (Reputation Institute, 2011). If previous financial crises have caused only mechanical or structural changes in a specific process or practice (e.g. introduction of an aggressive marketing practice, reduction of expense, introduction of a financial evaluation mechanism, incentive programs) affecting partially the managerial cognition of the organization, the most recent financial crisis of 2008, is believed to have caused pervasive structural, relational, processual, cognitive and emotional shifts in companies' organizational capabilities' reservoirs.

As a result, in order to survive various organizations needed to adapt their behavior to the rapidly changing institutional environment by restructuring core resources and capability base. Often this necessitates the development of new capabilities that enables such changes in the resource base of the firm and shapes the agenda and vision for the future (Dutton et al., 2001). Besides the existence of research studies, which explore how companies adapt to external changes, there is a significant scarcity of research in both the dynamic capability theory as well as other strategic management perspectives that examine how firms adapt in extreme events such as the 2008 financial crisis (Agarwal et al., 2009). Moreover, it is unclear how the changing nature of uncertainty during extreme events, influences the micro-foundations (managerial cognition and sensemaking, organizational processes and structure) from which specific organizational capabilities emerge. How uncertainty impacts organizational decision-making and the development of new capabilities depends on managerial perception about the degree of impact that a crisis event may have on day-to-day as well as long-term business operations.

In the organizational capability field, the recent financial crisis is an insightful context for exploring the development of organizational capabilities that are paramount for organizational adaptation and survival during unexpected phenomena (e.g. Jacobides and Winter, 2012). Such studies are particularly insightful as they can suggest why some organizations have survived and recovered faster from the financial crisis while others have vanished (Agarwal et al., 2009).

Phenomenon-driven, this doctoral thesis emerged as an intellectual curiosity to understand the deep industrial and organizational changes, which the global financial crisis triggered in the United Kingdom. Naturally, a passion was developed to study from a strategic management lens how some of the companies most affected from the global financial crisis have been building means of survival in adapting in the highly dynamic and uncertain environment - namely, what critical resources and capabilities affect the ability of firms to adapt and survive to the unstable institutional realm? These broader research questions inspired the research process and my doctoral thesis. In this thesis, the global financial crisis acted as a “window of opportunity” which triggered the research inquiry but also allowed the exploration of “bigger issues” which can lead to relevant knowledge for the managerial practice, citizens and policy-makers (Vaara and Durant, 2012). The next section discloses the theoretical inspirations for the research.

1.2 Theoretical Underpinnings and Addressing the Research Gap and Research Questions

The study benefitted from the theoretical discussions within organizational capabilities field and in particular dynamic capabilities literature, which offers a strong starting point. It also borrows useful insights from institutional theory, especially the stream of the literature studying institutional pressures for change to help understand the institutionally contingent nature of capabilities (e.g. North, 1991; DiMaggio and Powell, 1983; Oliver, 1992; Scott, 1995). However, besides the reference to such insights, this thesis is an attempt to contribute primarily to the organizational capability literature.

At the centre of the management research field has been the exploration of competitive heterogeneity through the introduction and the study of organizational resources, routines and capabilities (Penrose, 1959; Barney, 1991; Nelson and Winter, 1982; Dosi et al., 2000; Winter, 2003; Teece, 2009). Organizational capabilities are claimed to be habitualized or learned action patterns, which are unseparated of practising and acting (Schreyogg and Kliesch, 2007; Salavato, 2009). On this basis, they have been central in coordinating and refining both tangible and intangible resources into action (Felin et al., 2012). Moreover, according to Teece (2014, p.329), they tend to occur in part of learning, from organizational resources as well as from organizational histories.

Among organizational capabilities, the dynamic capability view emerged as an attempt to respond to criticisms of the resource-based view of the firm, suggesting the theoretical view to be vague and too inclusive in its categorization of resources, which is static in explaining how firms adapt their resources to adversities in the external environment (Arend and Bromily, 2009; Priem and Butler, 2001).

The logic of dynamic capabilities emphasizes the need to explain occurring changes in resource and asset values of the firm and how in response to such modifications a given company manages to adapt to the external environment (Teece, Pisano, and Shuen, 1997; Teece, 2007; 2009; Eisenhardt and Martin, 2000; Winter, 2003; Helfat, et al., 2007). Often to distinguish dynamic capabilities from other organizational capabilities, their functions are compared with ordinary, also known as operational capabilities. Ordinary capabilities involve mostly the administrative, operational or governance-related functions of an organization; while dynamic capabilities govern these organizational functions and define their strategic intent (Teece, 2014).

Furthermore, in contrast to operational capabilities which accommodate change and have been defined broadly as the ability of a firm to perform a particular task (Helfat et al., 2007), dynamic capabilities have been a subject to not one or two but numerous definitions. Dynamic capabilities, for example, have been described as being composed of processes that sense and seize opportunities in changing institutional context, as well as reconfigure the tangible and intangible resource base of the firm in pursuit of these opportunities (Teece et al., 1997; Teece, 2007). This primary definition has been refined and expanded further by other scholars. Eisenhardt and Martin (2000) argue that dynamic capabilities are ‘best practices’; highlighting their equifinality and path-dependency attributes where the first enables contextual similarity while the latter constrains the firm’s future behaviour as a result of past investment in routinized practices. The concept has been explained also through a hierarchical logic of reasoning, where dynamic capabilities are a high-level of routines, which are able to modify existing practices and decisions (e.g. Zollo and Winter, 2002; Winter, 2003).

As the systematic literature review (see detailed review in Chapter Two) demonstrates, one clearer definition of the concept is difficult to identify which inhibits empirical observations. One explanation for the variety of definitions may be due to the different research traditions; scholars tend to represent the concept in variety of ways ranging from an evolutionary economics, knowledge-based view to behavioural theory (Easterby-Smith et al., 2009; Vogel and Güttel, 2013). However, besides the multiplicity of definitions and the need for more conceptual works to release the full potential of the dynamic capability view; in broader terms dynamic capabilities can simply be described as 'practices of change' that help organizations to achieve an environmental fit (Vogel and Güttel, 2013). This research work looks at dynamic capabilities as 'practices of change'. In general, practices of change are context specific, depending on the influencing factors in the context, which necessitates them. In the explored empirical case of the Royal Bank of Scotland, these practices of change are orientated towards 'sustainability', namely the transformation of the bank into a 'sustainable' bank. The adopted interpretation of sustainability is explained later in this chapter in the section entitled 1.3 Key Constructs.

As the literature reveals the attention that the dynamic capability view has received in the strategic management field is significant, evident from the fact that around one hundred journal articles on the topic have been published every year since 2006 (Di Stefano et al., 2009; 2014; Easterby-Smith et al., 2009; Vogel and Güttel, 2013).

Figure 1.1 summarizes the annual frequency of journal articles on the dynamic capability view. However, the popularity of the debate hints that there are still theoretical, empirical and methodological avenues to embark on and gaps to be addressed.

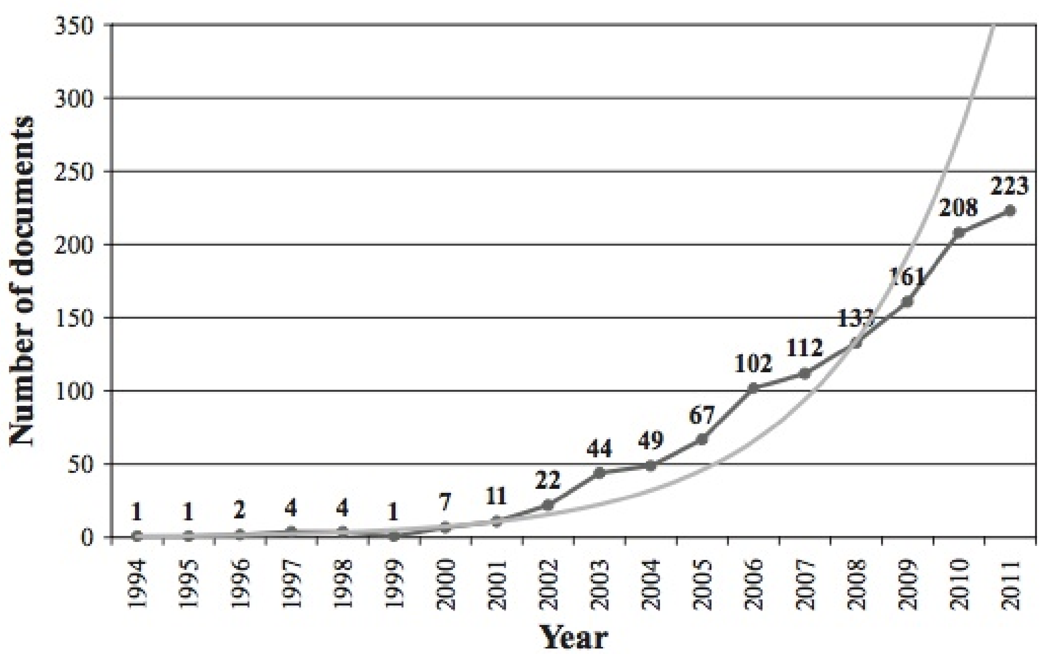


Figure 1.1: Growth in Publications on the Dynamic Capability View

Source: Vogel and Güttel (2013)

1.2.1 Theoretical Motivation

First, a persisting theoretical gap, which motivated this research work, is the need for more studies exploring capability development focusing on the dynamic changes in its micro-foundations in response to the fluctuating uncertainty in the macro institutional environment. Such research studies are especially critical for the general theory, as dynamic capabilities cannot be bought but only internally developed (Helfat et al., 2007; Kahl, 2014).

To date, scholars have sought to understand the development paths and mechanisms through which organizational and more specifically dynamic capabilities emerge.

Recently discussions on organizational capability development have explained the process in terms of life cycle paths (e.g. Helfat and Peteraf, 2003), modes of organizational learning (e.g. Zollo and Winter, 2002; Cepida and Vera, 2007; Kale and Singh, 2007; Romme et al., 2010) and developments through underpinning bundles of capabilities (e.g. Ahmed and Wang, 2007) or stages of specific organizational processes (e.g. Narayanan et al., 2009). In order to understand the differences between firms' capability development processes and behaviour, scholars have recently refocused their attention on examining the micro-foundations that constitute them (e.g. Felin and Foss, 2005; Abell et al., 2008; Salvato, 2009; Hoopes and Madsen, 2008; Felin et al., 2012). Despite a few attempts to contribute empirically (e.g. Gavetti, 2005) to call for more research in this stream of the literature; research endeavor in this area of the capability literature is limited. However, such studies are important as they allow the interactions between micro-constructs to be unpacked, shedding light on the internal change practices companies undertake to cope with ambiguity (Hoopes and Madsen, 2008).

While there is still both an ontological and a definitional debate regarding what micro-foundations really are, the capability literature has benefited from the micro-foundational categories suggested by Felin, Foss, Hermeriks and Madsen (2012) – *individuals, processes* and *structure,* related to specific level of analysis (Devinney, 2013). All of the micro-foundational constructs are described as context specific, defining the content and the manifestation of a given capability in the organization (Felin et al., 2012). Broadly, individual-based micro-foundations relate to the managerial interpretation and cognitive frame of the internal and external environment. Process-based micro-foundations refer to concrete organizational processes underlying the explored routines or capabilities (e.g. stakeholder engagement; interaction, communication, coordination, legitimization). Structure-based micro-foundations refer to the organizational design, governance and administrative structure, logic and form of management.

While each one of the discussed micro-foundational constructs does not operate in a vacuum but in fact in a constant interaction across organizational levels (Felin et al., 2012), there is a dearth of empirical research examining the interaction between them and its impact on the underlying learning mechanisms or modes which are essential for understanding how capabilities improve and organizations adapt and survive in high-velocity environments (Easterby-Smith et al., 2009). Considering the underlined theoretical gap, this study aims to explore what micro-foundations participate in the capability development process and how they do so by looking at the ongoing interactions and transformations in each of the three micro-foundational categories suggested by Felin and his colleagues.

1.2.2 Empirical Motivation

Next motivation for the study emerged on the empirical side of the dynamic capability literature. Namely, an empirical gap is recognized in the present lack of studies on capability development in companies, which have survived a near-death experience due to extremely turbulent contexts. The existing scholarship is scarce of empirical discussions on how the institutional context shapes the nature and the emergence of dynamic and operational capabilities.

Environmental dynamism and uncertainty are critical to the study of dynamic capabilities as they are the main drivers for their development (Wang and Ahmed, 2007). A review of the literature suggests that studies exploring the relationship between environmental dynamism and the nature of dynamic capabilities (e.g. Eisenhardt and Martin, 2000) are often conceptual, quantitative in nature testing the relationship rather than examining through time the different micro-foundational constitution of dynamic capabilities, whether and how they transform during phases of development and how environmental dynamism may lead to destabilization.

Furthermore, studies tend to discuss the importance of the dynamic environment but somehow observations have remained detached from the institutional context where environmental antecedents tend to be built (Eriksson, 2014). In this regard, there is a need for an empirical observation on the external and internal institutional factors that inhibit or accelerate the capability development process.

In the academic literature, dynamic capabilities are argued to come in various shapes and forms, ranging from such capabilities which enable new product development to the ones responsible for the external growth of the firm via strategic alliances or acquisitions (Helfat et al., 2007; Kale and Singh, 2007; Salvato, 2009). The contextual base for such observation has been predominantly at high-technology ventures, concentrating on innovation-based dynamic capabilities. According to recent critics (e.g. Arend and Bromily, 2009), besides the empirical and theoretical richness of such works, due to the less dynamic or turbulent nature of these institutional sectors, they have not been able to uncover fully the extent to which dynamic capabilities are really dynamic and enable change in organizational practices and processes.

Therefore, less is known about how dynamic capabilities allow adaptation and survival in highly turbulent change processes such as the ones triggered by financial crises. In their study, Arend and Bromiley (2009) found that only 18% of major research studies on dynamic capabilities tend to use unusual contexts, while most of the research uses what the authors refer to as 'not turbulent enough contexts'. Moreover, despite the fact that dynamic capabilities are conducive to firm's adaptation, survival and prosperity (Teece, 1997, 2007, 2009; Zollo and Winter 2002; Zahra et al., 2006; Eisenhardt and Martin, 2000), research studies using dynamic capability as a theoretical framework have been focused primarily on firm's adaptation rather than survival and escaping near-death experiences. To narrow this gap in the literature, this study explores capability development in the highly turbulent context of the financial service sector in times of fluctuating institutional uncertainty.

However, at empirical levels, scholars to date have focused less on the roots of dynamic capabilities (Johnson et al., 2007; Regnér, 2008). The exploration has been constituted mainly in what Johnson, Langley, Melin and Whittington (2007, p.9) define as "often documented systematized routines", or what Gavetti (2005) describe as "oversimplified behavioural foundations". In response to such calls in the strategy as practice field, emphasizing the untapped black box of micro-foundations of organizational routines and capabilities, recently authors (e.g. Felin and Foss, 2005; Gavetti, 2005; Teece, 2007; Abell et al., 2008; Salvato and Rerup, 2011; Felin et al., 2012; Argote and Ren, 2012) have turned their attention to studying the micro-level origins of these constructs or how individual-level practices and processes aggregate to the group and structure-level to define the primary components of organizational capabilities.

Organizational change activities have been regarded as a one-at-a-time activity by previous research studies; though turbulent changes are more continuous and should be regarded as a sequence of periodic unexpected changes. It is not clear how the different micro-foundations of organizational dynamic capability work in the process of turbulent change and how and what micro-foundations, under what conditions tend to influence more the stages in the development process of dynamic capabilities. What elements tend to cope better with forces of path dependency and inertia?

1.2.3 Methodological Motivation

To narrow the above-mentioned empirical and theoretical gaps means also to tackle the persisting methodological gaps in the study of dynamic capabilities, explicitly the lack of process research on capability development. The recent body of research has called for research design beyond the traditional variance-type research predominantly adopted in the capability literature. Although there is a consensus that the development of dynamic capabilities is a complex process requiring more explicit empirical multi-level research, besides a few exceptions (e.g. Montealegre, 2002; Narayanan et al., 2009), a process research design is still not a common choice among the strategic management research community (Hutzschenreuter and Kleindienst, 2006).

1.2.4 Emerging Research Questions

On the basis of the abovementioned gaps in the literature and research objectives, the study asks the following main research question:

How do companies develop a specific type of dynamic capability through time?

The question is addressed by the following two sub-research questions:

1. *What micro-foundations participate in the capability development process and how do they do so?*

2. *How does the changing institutional environment influence the development process?*

The highlighted research questions are explored through the study of a specific type of organizational capability whose content is 'sustainability'. The next section elaborates on the concepts, and some further constructs.

1.3 Key Constructs

Through the course of the research, a number of key concepts have been used. As they are often subject to different interpretations, this section aims to bring clarification.

As stated earlier in this chapter, inductively through the process of the research it was found that sustainability started to play an essential role in the survival and adaptation of the explored case company. It became a core orientation and objective of the bank to transform itself into a 'sustainable' bank by developing what I entitled here as sustainability-banking capability. I intended to study the development of this capability, which I attempted to study processually, exploring the occurring transformations in its micro-foundational basis inductively, meaning the development of the construct would be an outcome of the study.

At the core of the "sustainability capability" is the concept of "sustainability", which has been a subject of numerous discussions and meanings in the last fifty years of scholarship. In 2006, Dahlsrud counted thirty-seven definitions of sustainability, adding to the confusion. The multiple explanations of the concept have included its being a synonym, a higher-order construct or separate construct of that of corporate social responsibility, triple bottom line, financial sustainability, corporate citizenship, stakeholder engagement, and many more interpretations. Five dimensions tend to embrace the overall meaning of the above concepts – environmental dimension, social dimension, economic dimension, stakeholder dimension and voluntariness dimension (Dahlsrud, 2006). Undoubtedly, the ambiguity surrounding the sustainability construct makes it challenging for conducting empirical research. As a factor for this challenge, Bansal and DesJardine (2014) point out the potential temporal character of the sustainability construct. This study agrees with the temporal view of the construct, meaning that only through the adoption of a processual analysis can one understand in practice how the above-mentioned dimensions occur and interact to result in a sustainability-banking capability. Changes in the organizational attention and practices on these sustainability dimensions usually means changes in the value system, the organizational logics that drives an organization's long-term survival as well as day-to day activities. The scope of the sustainability capability or in other words its specific content is a result of the organizational attention managers place ion it a given period of time (Ocasio, 1997; Ocasio and Joseph, 2005). On the other hand, this depends on the particular context in which the company operates (Ocasio, 1997). The important role of organizational attention in understanding the development of sustainability-capability is confirmed inductively by the opinion of one of the interviewees. He stated that in order to explore what an organizational focus on sustainability is, one should notice what other practices and processes are absorbing the attention, and why exactly they are the focus of the leadership. He said: "*In order to understand any organization's focus on sustainability you have to think what other things are absorbing the attention and if they are in a serious financial crisis then ultimately things would change*" (SM 8).

In the explored banking sector, the most important sustainability issues concern the relationship between banking institutions and their primary stakeholder groups, which is a key to financial sustainability and long-term survival. Thus, in this study, "sustainability-banking capability" is a higher-order capability, which has a temporal character, and includes *practices of change ensuring a transparent relationship with internal and external stakeholders, embedded in a responsible business model that considers business-, ethical-, environmental and social risks in the pursuit of business opportunities.*

As the research question states, the study is interested in the 'development' of a particular type of organizational capability. What is understood by 'development' is a change process involving changes in the micro-foundational constructs of organizational capabilities, which is moderated often by the dynamics and uncertainty in the institutional macro environment. In this study, development is interpreted as a change process, adopted by Van de Ven and Poole (1995). Here, the change process is understood as "progression of change events that unfold during the duration of an entity's existence" (p. 512). Moreover, in this explanation, change is "an empirical observation and differs in form, quality and state over time" (p. 512).

The review of the process research literature unveiled a number of definitions of process (for further details see Chapter 3, Table 3.2). In this study, I applied the suggested third definition by Van de Ven's (1992, p. 169). It defines process as "a sequence of events which unveil the changing nature of the explored phenomenon". Hence, the development of sustainability-banking capability is explored as a sequence of events, which unveils transformations in the micro-foundations of practices of change on three levels (individual, process, structure) towards sustainable banking.

The next section summarizes the research design and methods applied to respond to the research questions.

1.4 Research Approach and Design of the Study

To address the research gaps and respond to the main research question - *How do companies develop a specific type of a dynamic capability through time?*, and to its sub-research questions, I adopted a process research design. The choice of this research design is also a direct response to the call in the strategic management field for developing processual perspectives to explore how problems and crisis have come about and how they might be dealt with amid dynamic change (Vaara and Durand, 2012, p.251).

The thesis draws upon both qualitative primary and secondary data collected for the selected outlier sampling case of the Royal Bank of Scotland. The case company was selected, as it is the most outstanding example of a financial institution, which suffered the most pervasive impact of the 2008 financial crisis. Although this was an international financial institution with more than 300 years of history and was previously renowned for its good stakeholder reputation in the banking sector, it required the biggest government bail-out in UK banking history and suffered a significant loss in the trust of multiple stakeholder groups. The primary data that I collected tools included interviews with 27 senior managers, stakeholders of the organization and 62 hours of participant observations in the bank's headquarters and offices in the city of London. The secondary data sources were gathered from written internal, archival documentation, external reports and newspaper articles. This variety of data sources was collected both in real-time and retrospectively in the period 2009-2012.

The unit of analysis was the transformation in the micro-foundations of sustainability banking capability exploring the changes in managerial cognition, key organizational processes and structure in each of the identified phases. The data were assessed through a hybrid strategy approach (Langley, 1999), comprised of five stages. The first stage included a detailed case description through narrative anecdotes. In the second stage, a visual mapping strategy was applied during which a timeline of key events and turning points in the bank's transformation towards a sustainable bank was created. In the third stage, time-series data were cross-compared and the three key phases of capability development were identified. Next, a review of the storyline followed, moving from description towards explanation. Stages four and five presented accordingly a thematic in-depth coding and empirically grounded process model construction.

1.5 Summary and Outline of the Thesis

In this chapter I outlined the theoretical, empirical and methodological motivation within the dynamic capability field for this thesis and the emerging research questions. The chapter provided also brief background information about the phenomenon (the Global Financial Crisis of 2008), which inspired the research study and the research query towards the development of sustainability-banking capability. It indicated what I set to achieve in this study and the outlined research questions I intend to respond to. To facilitate the reader, the chapter indicated also my interpretations of key constructs, which are often subject to multiple definitions. Following Chapter One, the thesis contains another five chapters, described below.

Chapter Two contextualizes the study in the organizational capability literature. It reviews the main typologies of the dynamic capability scholarship. It focuses in particular on previous deliberations about the micro-foundations that constitute them as well as discussions about the capability development process, focusing also on the capability learning mechanisms at different levels of operations. It evaluates also the relationship between capability development and environmental dynamism. At the end, the chapter summarizes the addressed research gaps and the arisen research questions.

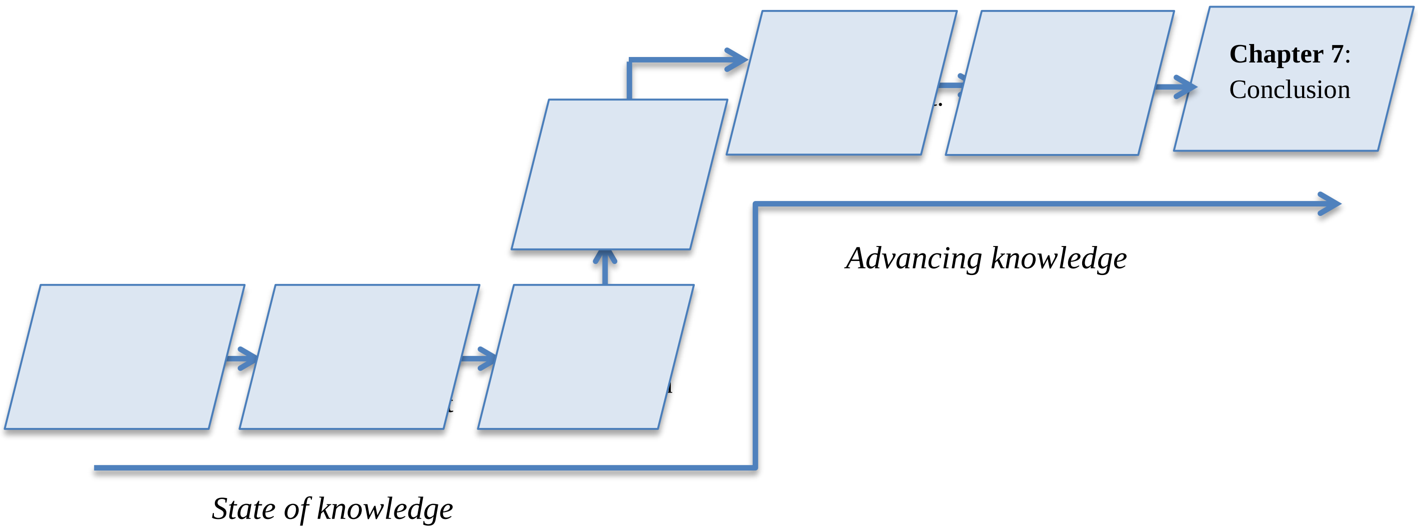
Chapter Three gives an account of the process research design and methodology, applied to examine the development of sustainability-banking capabilities in the Royal Bank of Scotland. The chapter discusses the ontological and epistemological assumptions that inform the research work. It draws a parallel comparison between the process and variance approaches of social inquiry and justifies the choice of the process model and the interpretivist epistemological paradigm. To provide further clarity on the importance of and difference between variance and the applied process research paradigm, the chapter continues with a review of the existing definitions of process and theory development strategies in process research studies. The chapter concludes with an explanation of the adopted qualitative, a single-case study of the Royal Bank of Scotland.

Chapter Four presents the data collection and unveils the way the collected process data were analysed. In the first part of the chapter, the researcher's insights into the process of gaining primary and secondary data sources during turbulent times are presented. The type of research data, their real-time or retrospective time dimensions as well as the way they have been used in the data analysis are justified. The second part of the chapter specifies the five research steps applied in the study's processual data analysis. The end of the chapter explains the author's approach to building rigorous process research practice through self-reflexivity, ethical consideration and high quality research practice.

Chapter Five presents the findings of the research from the adopted processual analysis through which the primary and the secondary case data were analysed. The chapter presents the existence of three phases through which the explored sustainability-banking capability changed its nature and function and developed during the explored period 2004-2012. Each one of the three phases, Phase One: The philanthropic route (2004-2007); Phase Two: The responsive engagement route (2008-2009); Phase Three

(2010-2012): The stakeholder co-creation route, is described in detail, showing the occurring transformations in the micro-foundational constructs of the capability in the changing institutional context (see Figure 1.2).

Figure 1.2: Outline of Thesis



Source: The author

Chapter Six discusses the findings and the main observations that are outcomes of the research. The chapter starts with an in-depth discussion of the process of developing sustainability banking capability. A process model is presented, showing how sustainability-banking capability transforms from ordinary capability to what is entitled as a transitional capability in the organization to finally becoming a dynamic capability. These transformations in the form and nature of the capability occur in the observed different levels of environmental dynamism and uncertainty. The chapter continues with a discussion of the observed institutional inhibitors and accelerators during the three phases of development. A summary of the key theoretical and methodological implications is provided at the end of the chapter.

Finally, Chapter Seven reviews the main theoretical, methodological and practical implications of the research work. The potential imitations of the work as well as future research paths are also explained. Figure 1.2 represents graphically the described structure of the thesis.

CHAPTER TWO: ORGANIZATIONAL CAPABILITIES: AN EVOLVING CONCEPT

2.1 Introduction

The role of the introduction chapter was to provide a background of the research study as well as to explain the stages through which the broad research question that directed the study in the beginning– how companies from the financial services sector were adapting and changing after the start of the global financial crisis, was narrowed down and the specific research questions of the study evolved, namely

How do companies develop a specific type of dynamic capabilities (sustainability banking capability) in changing institutional context? To answer this question, I focus on the following sub-questions:

> *RQ1: What microfoundations participate in the development of sustainability banking capability and how they do so?*
>
> *RQ2: How do the changing institutional context and its dynamics influence the development process?*

Organizational capabilities are vital for the survival and competitiveness of every organization in its specific market context as they are capable of accommodating change in the company's resource base in response to unpredictable events as well as regular changes (Winter, 2003; Helfat and Peteraf, 2003). The degree of dynamism in the institutional environment mediates the capacity of organizations to transform existing ideas, refine or/and develop new practices for enabling learning and change (Schreyogg and Kliesch, 2007; Davis et al., 2009).

From both, the evolutionary economics perspective and the resource-based view of firm (Barney, 1991, Helfat and Peteraf, 2003 Di Stefano, Peteraf and Verona, 2010), the capacity of an organization to respond to such changes is argued to be a key attribute to a company's dynamic capabilities. However, besides the fact that dynamic capabilities assist companies to change and develop, most of the discussions in the literature have focused on discussion around the impact that they have on firm performance rather than the development process through they emerge over time.

The chapter starts with an in-depth discussion on the organizational and dynamic capability research within the broader umbrella of the strategic management literature, highlighting the conceptual development as well as the empirical routes of the research field. In order to understand the central role as well as the difference between operational and dynamic capabilities in the company, the chapter presents first a number of conceptual developments of what has been argued to be the competitive base of the firm. As the review indicates most of the discussion in this field have been oriented towards the competitive advantage of the firm, discussing how capabilities influence organizational performance and much less on the development process through which they evolve.

The chapter continues with an overview of the main typologies of dynamic capabilities and a comprehensive review of the development of dynamic capabilities scholarship by focusing in particular on the micro-foundations that constitutes a firm's specific set of capabilities and routines. The chapter continues with a discussion on the effect of changing institutional pressures and environmental dynamism on the capability development process.

Finally, the chapter summarizes concisely the research needs and the research objectives of the thesis as well as the chartered research questions of the study. The section concludes with a summary of the literature review chapter.

2.2 The competitive base of the firm: Organizational resources, routines and capabilities

Both small and large organizations operate in constantly changing environments where sustaining company's competitive advantage and business competitiveness is determined by the firm's specific resource and capability base and more specifically their capacity to reshape ineffective practices, craft new business models and adapt to new institutional factors (Helfat et al., 2007; Mohrman and Lawler III, 2012). Not surprisingly, the issue of how companies gain and sustain competitive advantage has been one of the most widely discussed research topics in the field of strategic management in the last two decades. The question has inspired intellectual debates in diverse literatures including the transaction-cost economics where a company's competitive position in the market place is understood as the company's ability to govern and avoid negative costs from market transactions within different contractual relationships (Williason, 1975; 1985; 1993).

An external view to firm's competitiveness is reflected in the industrial economics perspective where the structure of the industry in which a company operates is seen as a key determinant of company's strategy conduct and market performance (Porter, 1979; 1985). Also, the issue of sustaining a firm's competitive advantage has been approached internally by focusing on the internal bundle of tangible and intangible resources and competences that contribute to the strategy formulation process (Prahalad and Hamel, 1990; Peteraf, 1993).

This view towards company's resources and internal capabilities has been known as the resource-based perspective of the firm (Penrose, 1959, 2009; Rumelt, 1984; Wernerfelt, 1984, 1995, 2007; Barney 1986; 1991; Peteraf, 1993, 2006; Fabrizio, 2012). With some exceptions (e.g. Amit and Schoemaker, 1993; Makadok, 2001), often the concepts – organizational resources and capabilities - are used interchangeably to one another in the majority of research studies (Nickerson et al., 2012, p.55).

Organizational resources and capabilities

One of the first definitions of a firm's resources of a company as those (tangible and intangible) assets which are tied semi permanently to the firm and can be both strengths and weaknesses for the firm's performance has been offered by Wenerfelt in 1984. This definition points out the dual affects, both positive and negative, that resources can have on a firm's performance. Organizational resources have been discussed also as a stock of tradable and non-tradable assets (Dierickx and Cool, 1989). In 1991, Barney adapted a holistic view of company's resources. He describes them as "*all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of an implement strategies that improve its efficiency and effectiveness*". Barney's work (1986; 1991) coined the core premise of the resource-based view which assumes that a company should be regarded as a bundle of both tangible and intangible resources which depending on their rarity, inimitability, overall value as well as non-substitutability would define a firm's sustainable competitiveness within a particular industrial context. In this respect, the origins of a firm's heterogeneity rest on the idea that depending on their distinctive resources and competences, companies will perform differently in their industrial context (Peteraf, 1993).

After the emergence of Barney's definition, numbers of experts in the strategy field have called for a more elaborated distinction between company's resources, capabilities, competences and processes. In this regard, Helfat and Peteraf (2003, p. 999) classify organizational resources as "assets or inputs to production (tangible or intangible) that an organization owns, controls and has access to on a semi-permanent basis". Organizational resources have been also described as building blocks of company's competences, which the author defines as cross-functional integration, and coordination of organizational capabilities" (Javidan, 1998, p. 62).

Organizational capabilities, on the other hand, have been defined in various ways as solely as organizational resources, organizational routines or as a composition of both (Stadler et al., 2013). According to Jacobides and Winter (2012) in the early 1970s, three authors seem to have employed the concept of capabilities in their research studies independently from each other – Richardson (1972, p. 888) who defined organizational capabilities as "the effect of a company's knowledge, experience and skills" and Nelson and Winter (1973) with the introduction of their seminal work entitled "Toward an evolutionary theory of economic capabilities". However, what the works of Richardson (1972) and Nelson and Winter (1973) share is the view of capability as "what an organization can actually do" (Jacobides and Winter, 2012, p.1366). In this respect, organizational capabilities have been described as being habitualized action patterns that are unseparated of practicing and acting (Schreyogg and Kliesch, 2007, p. 915).

Organizational routines

A number of authors have proposed routines to be building blocks of organizational capabilities. Collis (1994, p.143) referred to them as being consistent of "*socially complex routines that determine the efficiency with which firms physically transform inputs into outputs*" Furthermore, in Dosi and his colleagues' view (2000) when combined with each other and other organizational resources, organizational routines compose organizational capabilities. Winter (2003) has proposed a hierarchical point of view to organizational capabilities. He argued that organizational capabilities evolve from different types of high-level organizational routines which influence the strategic function of organizational capabilities in the process of organizational change and adaptation (Parmigiani and Howard-Grenville, 2012). Winter (1964) has characterized organizational routines as repeated behavioural patterns repeatedly which may change if conditions change (p. 263) or succinctly as "*the ways of doing things*" (1986, p. 165). In this regard, organizational routines have been argued to be the storage of knowledge, being an essential prerequisite in capability learning, also defined as dynamic capability (Prashantham and Flyod, 2012; Zahra et al., 2006). Organizational routines as a sub-category of organizational capabilities can be "*multi-actor, multi-actor, interlocking, reciprocally-triggered sequences of actions which are a major source of reliability and determinant of organizational performance* "(Cohen and Bacdayan, 1994, p.554).

However, one of the most widely cited contemporary definitions of organizational routines is the one that depicts organizational routines as "*repetitive, recognizable patterns of interdependent actions, carried out by multiple actors*" (Pentland and Feldman, 2003, p.95). Organizational routines have been studied through the exploration of two key attributes – their performative characteristics (specific practices, actions) and their ostensive aspects (cognitive, conceptually existing, abstract patterns) (Pentland and Feldman, 2005; Prashantham and Flyod, 2012). Furthermore, in their academic revisit of the organizational routines literature, Parmigiani and Howard-Grenville (2011) highlight three streams of works on routines from the capability-based perspective.

These are the exploration of routines as the microfoundations of capabilities, routines as being genes that promote stability or inertia; and routines as being repositories of organizational knowledge that enable learning and change (Parmigiani and Howard-Grenville, 2012, p. 419). The literature suggested the path dependency property of dynamic capabilities to be related namely to those routinized behavioural patterns, perceived as key building blocks of higher-order organizational capabilities (Nelson and Winter, 1982; Winter, 1990). The rooted in the organizational routines, a company's own heritage and historical background delineate the evolutionary path through which a dynamic capability can emerge from (Teece et al., 1997; Ethiraj et al., 2005, Hoopes and Madsen, 2008). As organizational routines tend to become path-dependent through time, this reflects on a company's specific capabilities that become also path-dependent under the same degree of institutional dynamism (Vergne and Durand, 2011).

2.3 Types of Organizational capabilities: Non-Dynamic vs. Dynamic capabilities

Based on the specific building blocks that partake in the composition of organizational capabilities, they have been classified in various ways in the management studies' literature, but mainly as either operational also referred as ordinary, or non-dynamic, non-strategic and homogenous or dynamic, combinative, heterogeneous or idiosyncratic, strategic capabilities (Kogut and Zander, 1992; Helfat et al., 2007; Pan et al., 2007; Drnevich and Kriauciunas, 2011; Parmigiani and Howard-Grenville, 2011). The first type of capabilities has been associated with the ordinary day-to-day operations and processes of a company, which are mostly common with the majority of the company's industrial peers (Cepeda and Vera, 2007). The latter type of organizational capabilities, namely a company's dynamic capabilities refers to the company's unique capabilities which are conducive to the firm's adaptation in changing contexts (Teece, 1997, 2007, 2009; Zollo and Winter 2002; Zahra et al., 2006; Eisenhardt and Martin, 2000). Table 2.1 summarizes the basic distinctions as proposed by Teece (2014) between dynamic and ordinary capabilities. These are outlined in terms of their purpose in the organization, mode of attainability, tripartite schema, key routines, managerial emphasis, priority, imitability and result or output for the organization.

Table 2.1: Key distinctions between Dynamic and Ordinary Capabilities

	Ordinary capabilities	**Dynamic capabilities**
Purpose	Technical efficiency in business functions	Achieving congruence with technological and business opportunities
Mode of attainability	Buy or build (learning)	Build (learning)
Tripartite Schema	Operate, administrate and govern	Sense, Seize and transform
Key routines	Best practices	Signature processes
Managerial emphasis	Cost control	Entrepreneurial asset orchestration & leadership
Priority	Doing things right	Doing the right things
Imitability	Relatively imitable	Inimitable
Result	Technical fitness (efficiency)	Evolutionary fitness (innovation)

Source: Teece (2014, p. 332)

Besides the significance of the resource-based and the organizational non-dynamic capabilities view of the firm in studying the competitiveness of firms, a number of criticisms have emerged calling for more research on the functionality of a company's resources and the origins of heterogeneity of company's resources and performance within the same sector (e.g. Lockett et al., 2009). Dynamic capabilities have been regarded as valuable sources of competitive heterogeneity, paramount for company's sustainable performance and survival in dynamic and turbulent environments (Teece et al., 1997; Hoopes and Madsen, 2008). It has been argued also to elaborate the resource-based view of the firm by introducing evolutionary arguments (Oliver and Holzinger, 2008).

The general view in the capability literature has been that the unique organizational knowledge and experience of a company's members, their ability to cooperate and to coordinate across organizational boundaries are reasonable determinants of the complexity of a firm's dynamic capabilities and their heterogeneous nature. However, Eisenhardt and Martin (2000) disagree with this perspective, arguing dynamic capabilities to be homogenous and industry-specific rather than company specific as previous researchers have suggested (Teece et al., 1997).

The empirical work on the consequences of company's resource heterogeneity in contrast to the origins of heterogeneity has prevailed in strategic management field. According to Lockett and his colleagues (2009), namely the lack of research findings in this area has stimulated the emergence and researchers' interest in the dynamic capabilities view.

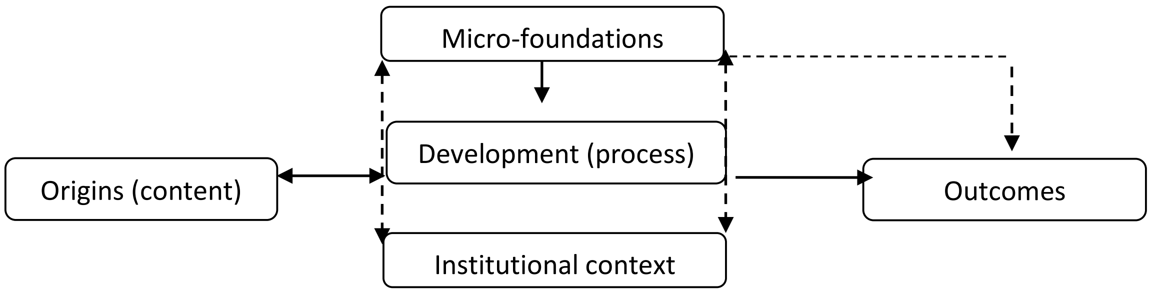
2.4 An Overview of the Dynamic Capability Literature

A quick overview using the *ICT Web of Knowledge* on dynamic capability literature from 1994 to 2012 in top eight business management journals, including the *Academy of Management Journal, Strategic Management Journal, Journal of Management Studies, Journal of Management, Organizational Studies, Organizational Science, Industrial and Corporate Change, and Administrative Science Quarterly,* identified based on the top 45 FT (Financial Times) journal ranking helped to recognize three key areas of research engagement with the dynamic capabilities field. These three areas refer to the origins (content) of dynamic capabilities, the outcomes they bring for a given organization as well as the process through which they are developed.

2.4.1 Mapping the research field: Research streams

The first stream of literature has been interested in suggesting elaborated definitions of the concept related to its origins and content (e.g. Winter, 2003; Bowman and Ambrosini, 2003). The second group of scholars (e.g. Teece et al., 1997; Zott, 2003; Helfat and Peteraf, 2003; Zhang, 2007; Drnevich and Kriauciunas, 2011; Protogerou et al, 2012) has examined more closely the consequences or the outcomes of a company's specific capabilities for a company's performance as well as the firm's heterogeneity in the marketplace and constructing empirical and theoretical models for facilitating its operationalization. The research studies in this domain have conceptualized the relationship between company's performance and its dynamic capabilities as being either direct or indirect, while the number of studies implying a direct relationship is much higher than the latter (Eriksson, 2014). According to Eriksson (2014), a reason for this trend is the quantitative methodology, applied in the majority of these studies, which simplify the relationship. The indirect link between dynamic capabilities and performance relationship is explored through the occurring changes in a company's operational capabilities. In Eriksson's (2014) view, these studies are based on qualitative methodology and use longitudinal data. A common finding of research works in this stream of the dynamic capability literature was the positive correlation between company's performance and its dynamic capabilities. The reason for this observation results from the fact that the majority of studies on dynamic capabilities examine retrospectively and quantitatively the company's past successes instead of exploring the ongoing processes of dynamic capabilities developments and its relation to organizational outcomes (Eriksson, 2014).

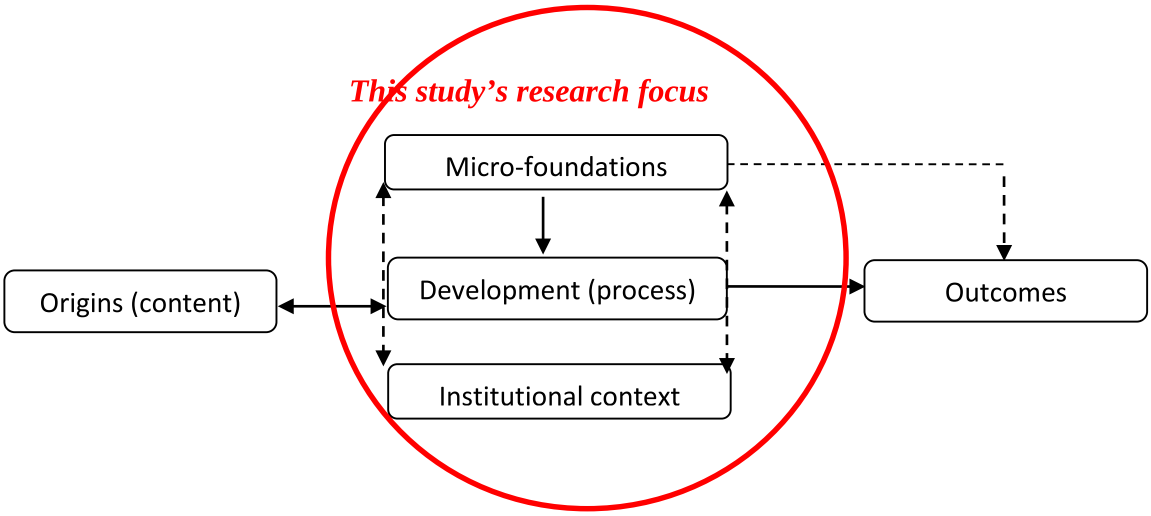
Figure 2.1: Organizational dynamic capabilities research: Mapping the research field



Source: Author

The most recent research on organizational capabilities has been directed towards the understanding of the development of dynamic capabilities by focusing more specifically on the micro-foundations that constitute them (e.g. Laamanen and Wallin, 2009; Pandza, 2011; Felin et al., 2012). However, besides the call for more research exploring the development process through which essential organizational capabilities emerge, such research is still limited (Montealegre, 2002; Nickerson et al., 2012). Therefore, one of the objectives of this research study is to contribute to the exploration of how a company's specific set of dynamic capabilities is developed within a particular institutional context. Figure 2.1 describes the current outlook of the dynamic organizational capabilities research, while Figure 2.2 indicates the particular focus of this doctoral thesis.

Figure 2.2: This study's focus within the capability research field



Source: Author

2.4.2 Towards the exploration of the origins of dynamic capabilities

The dynamic capability view has emerged in search for a better explanation of the foundations of company's sustainable performance by Teece in the 1990s. However, the term became a part of the managerial and academic vocabulary after it was published by Teece and Pisano (1994) and Teece, Pisano and Shuen in 1997 in the Strategic Management Journal. Teece's dynamic capabilities view builds mainly upon Penrose's resource-based theory of the firm to explain why and how some companies manage to build competitive advantages in turbulent times and survive by focusing on the development of dynamic capabilities and how these capabilities assist in changing company's resource base. According to the authors, dynamic capabilities are this type of organizational capabilities, which enables the firm to develop new processes, and practices that will allow for retaining its competitive position during a turbulently changing environment.

The work of Teece and his colleagues (1994, 1997) inspired a number of intellectual debates and perspectives on what dynamic capabilities are composed of. A closer overview of the dynamic capabilities literature from 1994 to date unveils three main propositions about the origin of this type of subset of organizational capabilities. Dynamic capabilities have been argued to be composed of either organizational and managerial processes (Teece et al., 1997; Galunic and Eisenhardt, 2001; Rindova and Taylor, 2002), higher-level organizational routines (e.g. Collis, 1994; Winter, 2003), or as a composition of both organizational processes and routines (Zollo and Winter, 2002).

Based on an hierarchical logic of reasoning, when distinguishing between operational and dynamic capabilities, Winter (2003, p. 983) defined the first as high-level routines, that are a collection of routines which together with its implementing input flows, provides an organization's management with a set of decision options for producing significant organizational outputs. According to the author, dynamic capabilities are those organizational capabilities that operate for the extension, modification and creation of ordinary capabilities (p. 991). Helfat and Peteraf (2003) have elaborated further on this routine-based view of capabilities and suggest that in the core of both operational and dynamic capabilities, there are always two types of routines. The first group of routines tends to perform individual tasks and the second group aims at the coordination of individual level tasks. In similar vein to Winter's (2003) and Helfat and Peteraf's (2003) 'hierarchical' assumptions, Wang and Ahmed (2007) define organizational resources as zero-level foundations, organizational capabilities as first order foundations, core capabilities developed through the integration of resources and capabilities to second-order foundations, and dynamic capabilities to third-order hierarchical foundations, as being the integrated accumulation of resources, capabilities and core capabilities. Moreover, dynamic capabilities have been described as being relatively different from ordinary organization capabilities due to their capacity to enable incremental change through internal organizational reconfigurations by breaking persisting rigidities (Schreyögg and Kliesch-Eberl, 2007; Vergne and Durand, 2011).

However, a few researchers have proposed a slightly different explanations from the above three groups of conceptual definitions. Such is the definition proposed by Griffith and Harvey (2001, p.597) who refer to dynamic capabilities as the creation of difficult-to-imitate combinations of resources, including effective coordination of inter-organizational relationships, on a global basis that can provide a firm competitive advantage. Adner and Helfat (2003) and Helfat et al. (2007) have stressed the need to examine dynamic capabilities by placing the manager's abilities in the core of the concept. In this respect, the authors define dynamic capabilities namely as the capacity of firm managers to create, extend or modify its resources. In their views, ordinary or operational capabilities allow a company to perform its daily operations while a firm's dynamic capabilities assist in maintaining the status quo of daily operations (p.34).

Table 2.2 provides a summary of some of the key definitions of dynamic capabilities and their building blocks in the existing organizational capability literature.

Table 2.2: Dynamic Capabilities: Conceptual Developments: 1994-2012

Author	Title of article	Dynamic Capability Definition	Building block
Teece and Pisano (1994)	The dynamic capabilities of firms: an Introduction	The subset of the competences/capabilities which allow the firm to create new products and processes, and respond to changing market circumstances (p.541)	*Organizational capability* as a subset of *org processes, composed of routines*
Collis (1994)	How valuable are organizational capabilities?	Organizational capabilities - socially complex routines that determine the efficiency with which firms physically transform inputs into outputs (p. 143). Dynamic capabilities are higher-order organizational capabilities that allow firms to overcome the path dependency that leads to the inimitability of the lower-order capabilities.	*Organizational routines*
Teece, Pisano and Shuen (1997)	Dynamic Capabilities and Strategic Management	The firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (p. 516).	*Organizational and managerial processes*
Eisenhardt and Martin (2000)	Dynamic capabilities: what are they?	The firm's processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match or even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resources configurations as markets emerge, collide, split, evolve and die (p. 1107).	*Organizational processes* composed of a set of *organizational and strategic routines*
Galunic and Eisenhardt (2001)	Architectural innovation and modular corporate forms	The organizational and strategic processes by which managers manipulate resources into new productive assets in the context of changing markets (p. 1229)	*Organizational* and *strategic processes*
Griffith and Harvey (2001)	A resource-perspective of global dynamic capabilities	The creation of difficult-to-imitate combinations of resources, including effective coordination of inter-organizational relationships, on a global basis that can provide a firm competitive advantage (p. 597).	*Organizational resources*

Zollo and Winter (2002)	Deliberate learning and the evolution of dynamic capabilities	A learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness (p.340).	*Learning processes & Operating routines* – a set of organizational activities in the operational functioning of the firm (both staff and line activities)
Rindova and Taylor (2002)	Dynamic capabilities as macro and micro organizational evolution	Dynamic capabilities evolve at two levels - a micro-evolution through 'upgrading the management capabilities of the firm' and a macro-evolution associated with 'reconfiguring market competencies	*Evolutionary processes*
Bowman and Ambrosini (2003)	How the resource-based and the dynamic capability views of the firm inform competitive and corporate level strategy	Dynamic capabilities are composed of four organizational processes- reconfiguring, leveraging, learning and integrating.	*Organizational processes*
Zott (2003)	Dynamic capabilities and the emergence of intraindustry differential firm performance: insights from simulation study	Routine organizational processes that guide the evolution of a firm's resource configuration and operational routines (p.98).	*Routine organizational processes*
Adner and Helfat (2003)	Corporate effects and dynamic managerial capabilities	Dynamic managerial capabilities- the capacity of managers to create, extend, or modify the resource base of an organization (p. 1012).	*Managerial capacity*
Winter (2003)	Understanding Dynamic Capabilities	An organizational capability is a high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization's management a set of decision options for producing significant outputs of a particular type. *Dynamic capabilities* are those organizational capabilities that operate to extend, modify or create ordinary capabilities (p. 991).	*Organizational routines* – behaviour that is learned, highly patterned, repetitious, or quasi-repetitious, founded in part in tacit knowledge – and the specificity of objectives.
Marcus and Anderson, (2006)	A general dynamic capability: does it propagate business and Social competencies in the retail food Industry	A *general dynamic capability* is the ability 'to renew, augment, and adapt' competencies over time.	*Organizational competences*
Zahra, Sapienza and Davidsson, (2006)	Entrepreneurship and Dynamic Capabilities: A Review, Model and Research Agenda	The abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s) (p. 924).	*Higher-order ability* to manipulate *substantive (ordinary)* which are *firm's ability to produce tangible or intangible output.*

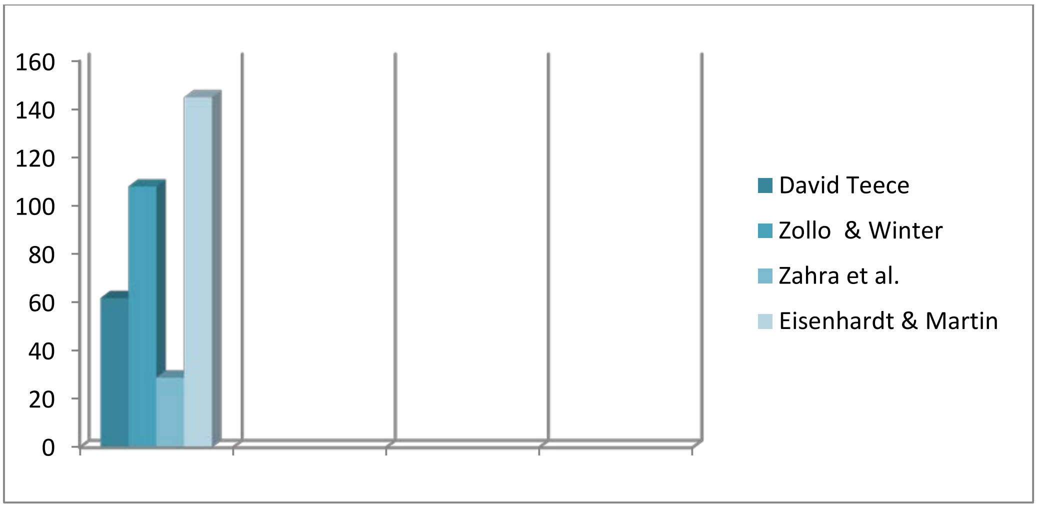
Teece (2007)	Explicating dynamic capabilities: The Nature and Microfoundations of (sustainable) enterprise performance	Firm's capacity to sense and shape opportunities and threats, to seize opportunities, and to maintain competitiveness through enhancing, combining, protecting, and when necessary, reconfiguring the business enterprise's intangible and tangible assets. Dynamic capabilities include difficult-to-replicate enterprise capabilities required to adapt to changing customer and technological opportunities (p. 1320).	*Organizational capacity* and *difficult-to-replicate enterprise capability*
Wang and Ahmed, (2007)	Dynamic capabilities: A review and research agenda	A firm's behavioural orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage (p. 35).	*Organizational processes* and *organizational processes embedded in processes*
Helfat et al., (2007)	Dynamic Capabilities: Understanding Strategic Change in Organizations	The capacity of an organization to purposefully create, extend or modify its resource base (p. 1).	*Organizational capacity*-the executable and repeatable ability of the firm to perform a task in at least a minimally satisfactory manner
Barreto (2010)	Dynamic Capabilities: A Review of Past Research and an Agenda for the Future	A dynamic capability is the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base.	*Organizational potential (capacity)*
Drnevich and Kriauciunas, (2011)	Clarifying the conditions and limits of the contributions of ordinary and dynamic capabilities to	Those capabilities used to extend, modify, change, and/or create ordinary capabilities (p. 255)	*Higher-order capabilities and routines*

Source: Author

The conducted systematic review of the organizational capabilities literature following Transfield, Denyer and Smart's (2003) approach of planning, conducting, reporting and disseminating the review suggested a lack of one single accepted and comprehensive definition of dynamic capabilities. Nevertheless, the review of the literature indicated four main definitions of dynamic capabilities as the most frequently used in the last five years of research scholarship. These definitions occurred from the works of Teece (1997; 2007), Zollo and Winter (2002), Zahra et al. (2006) and Eisenhardt and Martin (2000).

Within the researched eight top management journals (*Academy of Management Journal*, *Strategic Management Journal*, *Journal of Management Studies*, *Journal of Management*, *Organizational Science*, *Industrial and Corporate Change*, *Organizational Studies, Administrative Science Quarterly)* from 2007 to 2012, Teece's (1997, 2007) definition of dynamic capabilities is used in 62 empirical papers, Zollo and Winter's (2002) theoretical characterization is used in 108 empirical papers, Zahra et al.'s (2006) definition is used in 29 empirical papers, and Eisenhardt and Martin's (2000) definition is adopted in 146 empirical papers. Therefore, the latter is the most-used definition of dynamic capabilities in the reviewed empirical papers. According to Eisenhardt and Martin's definition, dynamic capabilities are embedded organizational processes, composed of organizational and strategic routines that enable a given firm to reconfigure existing resources into new ones, necessary for the company's adaptation to the changing environment. Figure 2.3 and Figure 2.4 provide illustrations of key definitions of dynamic capabilities for the period 2007-2012.

Figure 2.3: Illustration of the most-used definition of dynamic capabilities.

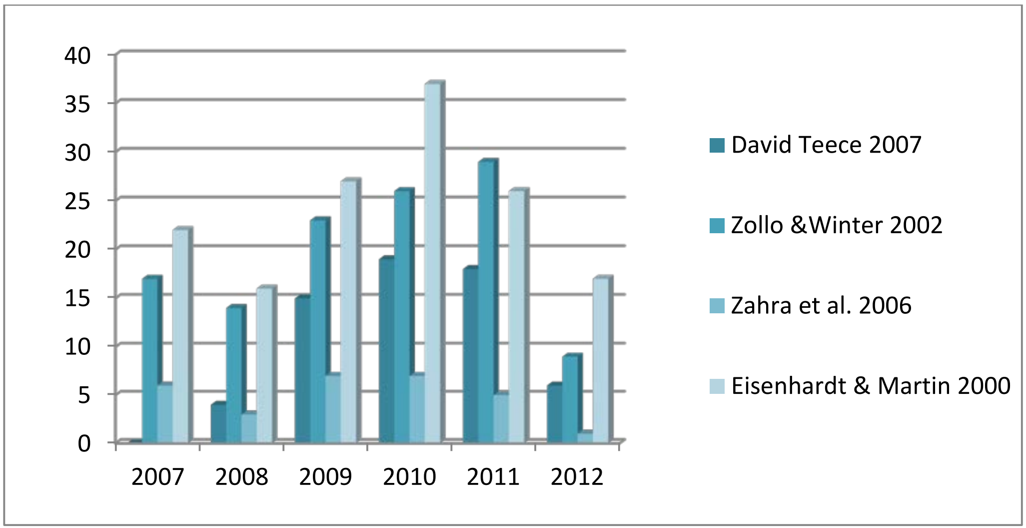


Source: Author

Moreover, a recent historical study on the research conversations on the topic of dynamic capabilities conducted by Peteraf, Stefano and Verona (2013) suggests the field of dynamic capability view to have been influenced mainly by two works – the seminal work of Teece (1997; 2007) co-authored with Pisano and Shuen and the work of Eisenhardt and Martin (2000). According to the scholars, these two seminal works are contradictory in their semantic explanations and logical reasoning, in other words, both paper follow different paths and reach different conclusions. Peteraf et al. (2013)

recognize three main areas of critical differences between Eisenhard and Martin's work and Teece and his co-authors' work.

Figure 2.4: Comparison of the most frequently adopted dynamic capabilities definitions per year (2007-2012).



Source: Author

These areas include questions over the boundary conditions under which dynamic capabilities are developed, the question of how dynamic capabilities enable a firm to attain a sustainable advantage and whether dynamic capabilities should be portrayed as an ultimate source of competitive advantage. In regards to differences over boundary conditions, Teece, Pisano and Shuen (1997) and Teece (2007) argue that dynamic capabilities apply only to rapidly changing environments. In contrast, Eisenhardt and Martin (2000) contend that besides high-velocity environments, dynamic capabilities can exist also in moderate and low-velocity environment, which generate differences in the dynamic capability nature. However, the researchers' approaches towards the study of dynamic capabilities differ the most in regards to their assessments about the link between a firm's sustainable advantage and dynamic capabilities.

In Teece's view, the competitive advantage that a firm's dynamic capabilities generate can be sustained for a very long time in cases where it is extremely costly or impossible for the firm's competitor to imitate and create them. Contrary, Eisenhardt and Martin

(2000) refer to dynamic capabilities in moderately dynamic markets as ‘best practices’. In scholars’ view, they may be replicable across the industry sector though still distinctive in their nature. Therefore, dynamic capabilities are not always a source of a sustainable advantage though they are indeed a source of competitive advantage (Peteraf et al., 2013). Furthermore, based on a pathfinder analysis of the dynamic capabilities field, Peteraf et al. (2013) conclude a researcher’s choice in selecting a dynamic capability definition to be socially constructed phenomenon, linked primarily to the researchers’ interest and background. Not surprisingly, the vast majority of scholars adapting Teece’s definition of dynamic capabilities have a background in economics, while researchers adapting Eisenhardt’s definition tend to be organizational scientists and behaviourists.

In order to reconcile these two contradicting views of dynamic capabilities, Peteraf et al. (2013) address the importance of taking a contingency perspective and exploring the circumstances in which the proposed forms and conditions for dynamic capabilities in Eisenhardt and Martin (2000) and Teece’s (1997; 2007) approaches fail. In authors’ view, more research clarity can be achieved through a closer assessment of the effect of environmental dynamism on capability development and the potential existence of a hierarchy of types of dynamic capabilities either such as best practices, simple rules and regulations, dynamic bundles, higher order dynamic capabilities in relation to different degrees of environmental dynamism.

Overall, the systematic review of the literature, in particular the conceptual developments of the dynamic capability construct unveils the presence of a plethora of types of reasoning and paradigms. Particularly, the main contradictions in the theoretical conceptualization of the concept result from disagreements about its specific role (e.g. being a source of sustainable competitive advantage vs. being a source only of a competitive advantage), its content or nature (being ‘best practice’ vs. higher-order routines vs. simple rules and organizational processes vs. organizational capacity or ability vs. dynamic bundles of resources and capabilities), the degree of environmental dynamism in which it emerges and exists (high, moderate vs. low velocity), as well as the level in which it occurs (Esterby-Smith et al., 2009; Barreto, 2010; Peteraf et al., 2013).

Indeed, the existence of a wide range of contradictory views of dynamic capabilities obstructs researcher's choice and application of one best definition of the concept. Moreover, the conceptualization of dynamic capabilities is argued to be bounded to the specific type or bundle of dynamic capabilities under study, which impedes even further the process of selecting one universal definition (Esterby-Smith et al., 2009; Barreto, 2010).

Rather than imposing any of the already anticipated yet conflicting definitions of dynamic capabilities on this thesis, the researcher of this study aimed to explore the development of a specific type of dynamic capability construct inductively by maintaining a precautious focus on the underlined above set of boundary dimensions and contingencies. Therefore broadly, this study defines a dynamic capability as *a multidimensional, contextual, time specific construct that enables firms to respond to and survive dynamically changing environments.*

2.4.3 Types of Dynamic capabilities

The overview of the literature suggested a number of different types of dynamic capabilities in regards to their purpose, form as well as quantity (Dixon et al., 2013). A possible explanation for the existing variety of capabilities is the fact that the dynamic capability view has been used as a theoretical foundation in a wide variety of research specialities such as strategic management, marketing, human resource management, product development entrepreneurship, international management (e.g. Luo, 2000; Zahra et al., 2006; Arthurs and Busenitz, 2006; Wu, 2007) as well as for studying large, medium or small organizations across different industries (e.g. Augier and Teece, 2007; McKelvie and Davidsson, 2009). The theoretical inheritance from this diverse range of disciplines has resulted not only in the use of analogies such as "big tent" when referring to the broad application of the construct (Barrato, 2010) but also in the emergence of different types of dynamic capabilities, typically applied to explore how a company can build or sustain its existing competitive advantage in a particular function of its business.

For example, in their study on Bruni and Verona (2009, p.102) derive the concept of dynamic marketing capabilities. They describe the construct as a type of dynamic capabilities aimed at developing releasing and integrating specific market knowledge, necessary for new product development and modification in the company's capability base. Furthermore, the study of Schilke and Goerzen (2010) identify alliance management capability to be a distinctive dynamic capability in terms of its company function in the context of alliance management. Besides functional characteristics, dynamic capabilities vary also in terms of hierarchical types. In this respect, Ambrosini, Bowman and Collier (2009) distinguish between three hierarchical types of dynamic capabilities – incremental, renewing and regenerative dynamic capabilities. Each one of these capability types is defined in relation to the dynamic environment in which companies operate[1].

However, besides the presence of different types of dynamic capabilities and the various designations applied to them, what is always an occurring feature is that they are always higher-order capabilities which enable a change in a company's functional capabilities, also known as day to day managerial practices in response to external institutional challenges (Zahra et al., 2006; Esterby-Smith et al., 2009). Next section explains the type of dynamic capability this study is focused on.

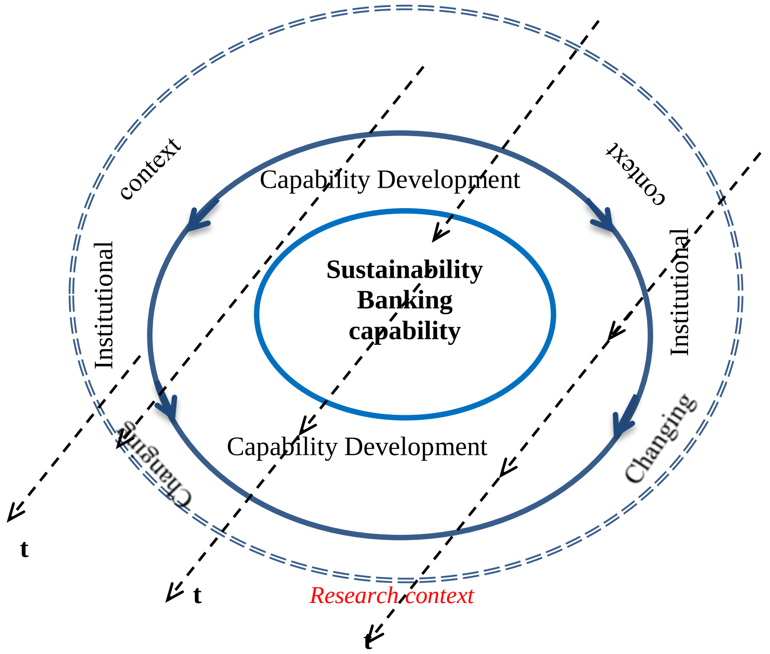
2.4.3.1 Dynamic capabilities for corporate sustainability

This study's objective is to explore the development of a distinct type of dynamic capability – that of corporate sustainability within the banking context. The term, *sustainability-banking capability*, is adapted here to refer to this specific type of dynamic capability (See Figure 2.5). To date, there is a mere understanding in the literature how this set of capabilities, incorporating economic, environmental and social competences are created. The literature on corporate sustainability can be divided into two streams – the normative case and the business case of corporate sustainability. The majority of research has been focused to large extent on the normative case, examining the motives and challenges in incorporating sustainability

[1] Further details about each one of these dynamic capability types and their relation with the institutional context are discussed in section 2.6.1: The role of environmental dynamism in dynamic capability development.

practices in day to day organizational practices and to less extent on the business case, exploring the link between sustainability-oriented initiatives and business performance.

Figure 2.5: This study's focus on sustainability-banking capability



Source: Author

However, research in the former case has looked at sustainable competences more as being ordinary day-to-day operations and processes which are usually non-strategic, homogenous, and ordinary capabilities rather than dynamic capabilities that enable strategic change and development to ensure the company's survival in both the short and the long-term. Inductively, this research study found sustainability capabilities to be conductive to the explored case company's adaptation in the rapidly changing context of the global financial crisis of 2008. A research exploration is necessary into the exogenous and endogenous mechanisms that drive or inhibit the development of this type of dynamic capability during periods of intense turbulence and institutional change.

A key dimension in the sustainability-banking capability construct is the concept of corporate sustainability. To date, one single agreed definition of the concept is still lacking. This has generated considerable operational challenges for researchers, interested in exploring its implications and evolution in the organizational milieu. The lack of one concrete definition on the concept challenges the conceptualization of an aggregate, multidimensional construct of sustainability-banking capability directly from the existing literature. The faced challenges inform the researcher's choice of exploring the evolution of this particular type of dynamic capabilities inductively though not thoughtlessly to existing interpretations. The next section summarizes the key interpretations of the notion in the management field and the choice of the conceptual orientation that informs this study.

2.4.3.2 Multiple interpretations of corporate sustainability construct

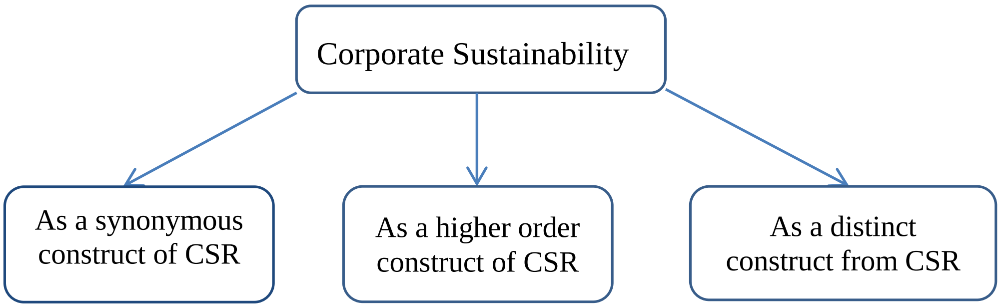
The notion of corporate or business sustainability has gained immense popularity in both day-to-day business practices as well as across disciplines in the academic field. It is supposed to have originated from the general concept of sustainability and the changing it political, public and academic aspects through time and context (Linnenluecke and Griffiths, 2010).

In 1987, one of the first definitions was chartered by the World Commission on Environment and Development (WCED) which referred to sustainability as the organizational "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (p.43). A review of the current literature reveals no one single definition, but instead a plethora of explanations on the concept (e.g. corporate social responsibility, corporate citizenship, triple bottom line etc.).The plethora of semantic explanation of what constitutes corporate sustainability can be divided into three main typologies – being synonymous to the notion of corporate social responsibility and its variants (e.g. Marrewijk and Werre, 2003), being a higher-order construct incorporating corporate social responsibility (e.g. Marrewijk, 2003) as well as being significantly different from CSR (e.g. Bansal, 2014) (see Figure 2.6).

Generally, corporate sustainability has been described as being synonymous to corporate social responsibility (CSR) perceived as a voluntary corporate activity (e.g. Marrewijk and Werre, 2003). As such, the concept has been studied through a number of theoretical prisms (e.g. stakeholder theory; shareholder theory; agency theory;

institutional theory, resource based theory etc.). As a higher-order construct, the notion of corporate sustainability has been defined as being integrative to corporate social responsibility (Marrewijk, 2003). The third assumption in the literature has reasoned corporate sustainability to be a significantly different construct from CSR (e.g. Bansal, 2014). However, the bottom of almost every view on corporate sustainability is that it considers simultaneously economic prosperity, environmental integrity and social equity (Bansal, 2004). These have been also referred to triple bottom line or profits, people and planet (Elkington, 1997).

Figure 2.6: The three most frequent interpretations of corporate sustainability



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The adaptation of corporate sustainable practices by organizations has been discussed as a company’s response to challenging environments and institutional pressures. The notion has been studies on a multiple levels of analysis from the individual level, looking at individuals’ perception of it, to the exploration on the industry, system levels. In this research study, the practice of sustainability is explored temporally through multiple levels. Similarly to Bansal and DesJardine (2014), the author of this thesis believes that only through a closer look at the micro-processes, practices and trade-offs across different levels of the organization, one may observe the relationship between company’s strategy and business sustainability and understand the evolution of a company towards a sustainable organization.

Namely, according to Bansal and DesJardine (2014), the key difference between corporate social responsibility and corporate sustainability has been found in the temporal character of the latter. Moreover, managerial activities and processes that are motivated from the organizations' short-term pursuit of shared economic and social values can be defined as corporate social responsibility activities (e.g. philanthropy, volunteering). However, managerial practices and processes that have a long-term orientation and require at times trade-offs in the micro-level practices are defined as sustainable practices.

Preliminarily, this study examines the notion of corporate sustainability as being a company's simultaneous consideration of economic prosperity, environmental integrity and social equity in day-to day business decision-making and practice. Thus, underpinned by the dynamic capabilities literature, the adopted initial conceptualization of sustainability-banking capabilities examines them *as a specific type of high-order capabilities, which enable firms to respond to and survive dynamically changing environments while simultaneously considering its economic, social and environmental responsibilities.*

The research enthusiasm for exploring how companies develop sustainability-based competences and transform into sustainable organizations has resulted in a few research conceptualizations aiming to shed light on those development paths. Next section summarizes some of these theorizations.

2.4.3.3 Development paths towards corporate sustainability

As a higher order construct, corporate sustainability has been argued to emerge on multiple levels and through various forms. According to van Marrewijk (2003), the first level of corporate sustainability refers to the compliance-driven corporate sustainability, where corporate sustainable practices are a response to regulatory obligations and authorities. The next level of sustainable development is the profit-driven corporate sustainability, characterized with the integration of social, ethical and ecological aspects, which contributes to the profitability of an organization. The third type of business sustainability development refers to what has been defined as "caring corporate sustainability". In this case, a company equally balance its economic, social and environmental responsibilities. The forth development path is the synergic relationship between company's sustainable practices and its stakeholders, seen as a prerequisite for a company's progress in the marketplace. According to van Marrewijk (2003) the ultimate state of sustainability development is the holistic sustainability stage, where a company's sustainable practices have become part of the company's identity and business culture. In this stage, a company's sustainable practices are seen as the only way to do business. In the same year, van Marrewijk together with Marco Werre (2003) suggested a six level of corporate sustainability development. The scholars entitled it *a pre-corporate sustainability path*. A central aspect of this stage is that it lacks an internal corporate motivation for engaging in sustainability-oriented practices or initiatives. In this regard, external institutional pressures trigger corporate sustainable practices.

Inspired by Marrewijk (2003) work a few of other stage frameworks of corporate sustainability and often referred as its synonym – corporate social responsibility.
In 2004, Carlisle and Faulkner suggested a four-stage development framework, which consisted of a developing awareness stage, promoting stage, initial implementation and mainstreaming stage. In the same year, Simon Zadek proposed a similar five-stage development path which according to the researcher should be regarded as a linear learning curve. The proposed five stages included a defensive stage, when a company simply denies any kind of responsibilities, a compliance stage, when a company decides to comply with the minimum policy requirements, a managerial stage, characterized with embedding sustainable practices within the management processes, a strategic stage where the firm's sustainable initiatives becomes a part of the core business strategy and lastly a civil stage. In the final stage, a company starts to encourage other actors across the industry to adapt sustainable business models.

A few years later, Maon, Lindgreen and Swaen (2010) proposed an extended version of the above conceptualizations. The researcher's framework suggested seven distinct phases that defined a company's evolution into a sustainable organization. The first, dismissing stage is evident when the studied company does not indicate any corporate motivation for corporate social responsibility and its relationship with various stakeholders can be defined as being entirely contractual. The second, self-protecting stage is present when there is a little evidence of any sustainability based initiatives due to limited knowledge and corporate awareness. Next, in the compliance-seeking stage the firm is aware of existing legal and industrial threats; therefore it decides to develop some types of external and internal policies. According to the scholars, a capability- seeking stage can be observed when the firm starts to be aware of the strategic importance of sustainability-informed business practices. In the last three stages, the company adopts a more active behavior. In the fifth, caring stage it implements external reporting with key stakeholder groups. In the following strategizing stage, the company has grasped an internal knowledge and understanding about the long-term benefits of becoming a sustainable organization while in the last transforming stage, it demonstrates proactive sustainable behavior.

Although the above conceptualizations characterize descriptively the possible paths through which a firm may change into a sustainable organization, a common shortcoming of the suggested conceptualizations is the linearity of the development process, which they describe.

2.5 The process of dynamic capability development

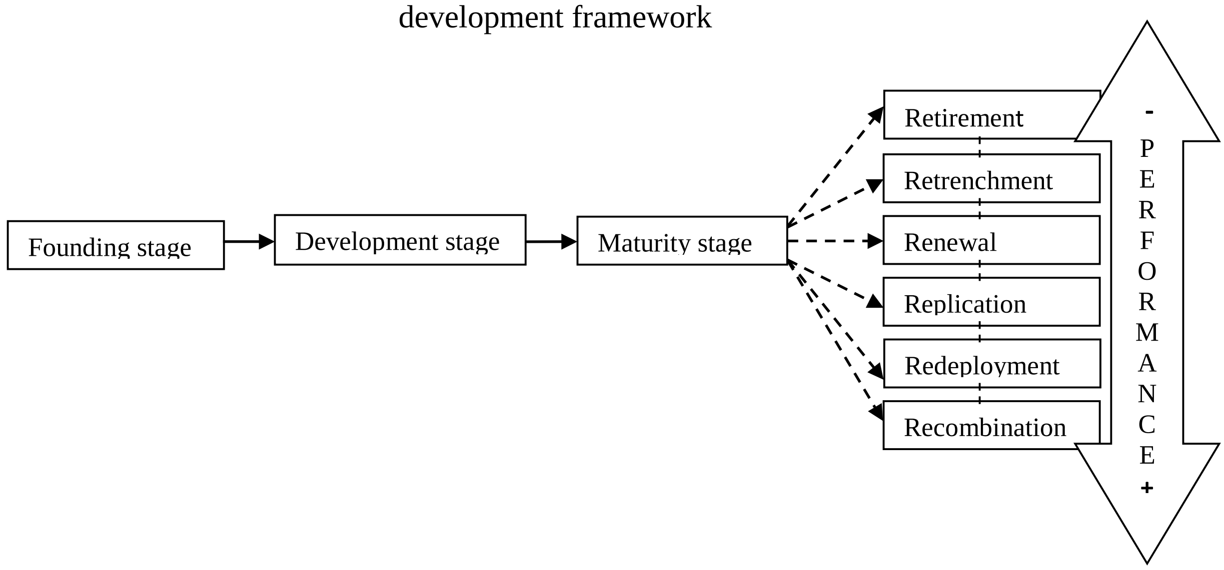
Although there is an agreement among the strategic management scholars that organizational capabilities and in particular a firm's specific dynamic capabilities are a conclusive source of competitive advantages (Zott, 2003; Protogerou et al. 2011), there is still a limited knowledge about the development of those capabilities and an empirical understanding about the managerial thinking, actions and learning processes through which they emerge (Ethiraj et al., 2005; Narayanan et al., 2009).

The first seminal work exploring the emergence of dynamic capabilities is the work of Teece and his colleagues (1997), which claimed dynamic capabilities to be a path-dependent process of sensing, seizing or reconfiguring activities. According to the authors, the process of sensing activities in order to create a dynamic capability includes the search or the creation of new opportunities, activities or mechanisms. This may involve investment in new resources or new technology. The second step in the dynamic capability development process is conceived the process of seizing which refers to activities which maintain and improve technological competences; establishing control platforms and building loyalty and keeping previously embedded effective routines. Once, new and existing opportunities are sensed and seized, some companies' ordinary capabilities or assets need to be reconfigured so that they can enable dynamic capabilities to emerge and the company to adapt to the existing institutional environment. Although Teece's framework is an essential stepping-stone in the development of dynamic capabilities research, the research study represents the development of dynamic capabilities as an interconnected, linear process. Moreover, it is not clear why and how capabilities become created, maintained or reconfigured in rapidly changing environments (Protogerou et al., 2011).

After the emergence of Teece's dynamic capabilities conceptual framework, other scholars focused on elaborating on the dynamic capabilities framework and proposing more updated models on how dynamic capabilities are developed and how they tend to influence company's competitiveness. Helfat and Peteraf have proposed such model in 2003. In contrast to Teece et al. (1997) who explore organizational change and adaptation simply through the concept of dynamic capabilities, Helfat and Peteraf (2003, p. 998) argued that both operational (ordinary) capabilities as well as dynamic capabilities can accommodate change processes and impact the company's performance. The scholars suggest that similarly to products; capabilities should be observed in terms of lifecycle paths. They propose three main stages – founding stage, where managers' or individual team members' social capital, human capital and cognition are key inputs in the initial formation process of a particular capability; development stage, and maturity stage. Once a capability reaches the maturity stage, it will embark on one of the six branches of capability transformation paths – retirement, retrenchment, replication, recombination, redeployment or renewal (see Figure 2.7).

Each one of these paths embodies an episode of the company's history and related experience in a given period of time (Schreyogg and Kliesch, 2007). In contrast to Teece et al. (1997) model which suggests a positive, sustainable performance in the last phase of dynamic capability development, Helfat and Peteraf's (2003) framework implies either positive or negative firm performance depending on the last capability transformation path. However, besides the practicality and generality of authors' framework, its weakness is found in its inability to explain how a capability development will differ in various contexts and settings.

Figure 2.7: Graphical representation of Helfat and Peteraf's (2003) capability development framework



Source: Author

Dynamic capabilities have been developed through underpinning bundles of adaptive, absorptive and innovative capabilities during turbulent environments (Ahmed and Wang, 2007). Moreover, capability processes such as coordination capability, learning capability and strategic competitive response capabilities have been explored as key constructive elements of dynamic capabilities (Protogerou, 2011). The process of coordinating enables the allocation of resources, the flow of knowledge and successful communication of managerial decisions across the organization (Protogerou, 2011). The lack of coordination mechanisms increases uncertainty and may lead to major complexities in a company's operational capabilities. Learning capability has been recognized as a paramount process for generating new knowledge, essential for surviving institutional uncertainties, while the strategic competitive response capabilities enable the firm to react to exogenous pressures.

The process of capability development has been argued to depend on the learning processes and their specific configurations (Rothaermel and Hess, 2007). During the process of organizational learning, companies select and configure different resources and internal processes through which valuable capabilities emerge (Schreyogg and Kliesch, 2007). A company's specific dynamics in these learning processes are believed to add to occurring differences and similarities in the capability development processes within the same industry.

In the last few years, a number of scholars have expressed concern in regards to the lack of enough empirical research on the topic per se. In this respect, Zollo and Winter stated: "To our knowledge at least, the literature does not contain any attempt at a straightforward answer to the question of how routines – much less dynamic capabilities –are generated and evolve" (2002, p.341). Felin, Foss, Heimeriks and Madsen (2012, p. 1) also note that while there is research progress in understanding routines and capabilities, an adequate empirical knowledge on the micro-origins of these constructs is still missing. The next section outlines the micro-foundational characteristics of dynamic capabilities as discussed in the recent literature.

2.5.1 What are micro-foundations?

Before exploring the black box of dynamic capabilities' micro-foundations, it is important to note that it has been both an ontological and a definitional debate in the management discipline about what micro-foundations are and what they are not, yet there is still a lack of scholarly consensus on the nature of micro-foundations (Barney and Felin, 2013; Devinney, 2013). The complexity of this issue is pertained to the multiple forms from which micro-foundations tend to originate. Greve (2013, p. 103) describes them as ideas of which level of analysis is the correct one for specifying a theoretical explanation, which mechanism is allowable in a theoretical explanation, and which social unit should be given actor-hood within the basic behavioural units in the theory". Moreover, according to the scholar the micro-foundational form under consideration will depend on a researcher's own sub-disciplinary conventions and targeted academic audience.

Within the boundaries of the routine and capability literature, micro-foundations have been defined as a “theoretical explanation, supported by empirical examination, of a phenomenon located at analytical level N at time t(Nt)” (Felin et al., 2012). However, the debate accumulates around the lack of researchers’ agreement on the appropriate level of analysis when exploring the micro-foundations paradigm of an emerging or changing organizational phenomenon. This dispute is not a new phenomenon; it is rooted in the question of the micro (reductionist) versus the macro (aggregation-based) question about the origins of social sciences (Elster, 1989; Coleman, 1990; Raub et al., 2011; Barney and Felin, 2013). Based on his review of micro-foundational thinking, Devinney (2013) characterizes micro-foundations as theoretical developments on different levels of analysis – individual, collective and strategic firm level.

On the individual level of analysis, the defined by the author, I-level theories relate primarily to the individual practices and behavioural patterns. Followers (e.g. Gavetti, 2005; Winter, 2013) of this reductionist approach of micro-foundational thinking have stressed the role of individual level factors such as individual choices, cognition, learning, deliberation and creativity in studying the development of organizational routines and capabilities. Micro-foundational thinking is also adapted in the management scholarship as theories on the organization level of analysis (O-level theories). These are theories of group interaction, which relate to the collective action of behaviour (e.g. routines). This group of scholars (e.g. Greve, 2013; Van de Ven and Liftschitz, 2013) perceive organizations as structured environments where the day-to-day interactions between members of the organizations influence the group decision-making processes and form specific strategic outcomes.

The third group of micro-foundation scholarship refers to the strategic firm level (S-level theories), such as theories relating to firm competition and strategic action and reaction. According to Devinney (2013), with the exception to some extent of micro-foundational thinking on the organizational level of analysis, the study of a specific phenomenon from a strategic firm level (S-level theory) is limited as there are extremely minimal matching points with individual level factors (managerial perception, beliefs, knowledge etc.) and vice versa.

The exploration of the micro-foundations of a particular phenomenon from a purely individual level of analysis has been criticized for remaining detached from the firm-, organizational-level dynamics. In this respect, Barney and Felin (2013, p.142) argued “simply referencing to a micro-level concept such as learning or cognition does not suffice and is not a micro-foundation”. According to the researchers, a work is micro-foundational only if it is backed up by a rigorous meta-theory and it shows the change and aggregation processes of the studied concept/phenomenon within a context of an organizational or a social setting. Moreover, through their historical overview of the literature, they outline some of the most frequent misconceptions of micro-foundations in the strategic management literature.

Namely, the main misconception implies the view that all macro-level concepts and theories should be reduced to explanations that focus on individuals: their cognition, psychology, characteristics, abilities, knowledge, and behaviour. In authors’ perspective, the most essential problem with this type of thinking about micro-foundations is that it places the individual in the centre of analysis while ignoring the contextual environment in which the individual is located and its interaction with other members of the organization. Hodgson (2012, p.1390) has expressed similar view arguing that while it is important to examine individuals and their psychology, management scholars would not get far by considering solely the individuals alone.
The next concern that Barney and Felin (2013) express in regards to the micro-foundational thinking is the attempt of many scholars for a continuing reduction of the level of analysis. According to the scholars this attempt for a more radical reduction of the level of analysis does not contribute to the day-to-day managerial practices. The scholars support Coleman’s view (1990) that “individuals provide a natural stopping point for the appropriate starting point for analysis in the social sciences” (p.143). As Felin and Foss (2005, p.448) outlined “without individuals, there is no collective”. Nevertheless, understanding simply individual level cognition and behaviour is not sufficient to determine how heterogeneous individual behaviour aggregates to the structure level (Abell et al., 2008). In this sense, micro-foundational scholarship needs to evolve across levels of analysis, building theoretical and empirical bridges between the macro and the micro divide (Hitt et al., 2007; Devinney, 2013). This process of

crossing levels of analysis can be an engine of discovery (Foss, 2011 referring to Hackman, 2003).

Although, researchers may be able to build an understanding on the organizational level, simply by adding (aggregating) individual-level behaviour, in order to understand more complex phenomenon and their emergence, academics should shed light on the impact of driving mechanisms and underlying processes of social interaction on aggregated outcomes. Understanding social structures, how the individual motivations are translated in specific organizational processes and how time and contextual changes impact group and individual behavioural patterns are essential prerequisites for exploring micro-foundations. The next section discusses the limited research on micro-foundational constructs within the capability literature.

2.5.2 Micro-foundational thinking in the study of capability development

Besides the number of empirical and theoretical works on the origins of organizational capabilities (see Table 2.1), this field of study is still marked with definitional, terminological and operational perplexities. As the primarily cause of the current state of the capability-based work has been pointed out the limited research on capability micro-foundations (Felin and Foss, 2009). Abell, Felin and Foss (2008, p.498) recently expressed their worries that “the absence of micro-foundations in the capability view may contribute to a disappearing mandate for strategic management”. Exploring capabilities’ micro foundations has been defined as paramount for explaining competitive heterogeneity across firms and their ability to cope with ambiguities differently (Hoopes and Madsen, 2008). Therefore, unpacking organizational capabilities to their key micro constructs is essential for building an adequate understanding of how some companies adapt, change and survive and other do not in dynamic markets and times of changing institutional context.

In the organizational capability literature, three interrelated categories are suggested as micro-foundations of organizational routines and capabilities. These three micro-foundations underpin this research study. Felin, Foss, Heimeriks and Madsen (2012) define these micro-foundational categories as – *processes, structure* and *individuals* and call for more empirical research on the topic. Respectively, each one of these micro-foundational constructs relates to a specific level of analysis (Devinney, 2013).

On the *individual level of analysis*, the micro-foundations of a specific capability refer to the cognitive psychological foundations, characteristics and cognitive structures (mental models and knowledge sets) and the activities that they inform (Felin et al., 2012; Baer et al., 2013). In the study of capability micro-foundations, researchers refer to cognition as “a forward-looking form of intelligence that is premised on actor’s beliefs about the linkage between the choice of actions and the subsequent impact of those actions on outcomes” (Laamanen and Wallin, 2009, p.954). The way managers interpret the external and the internal environment is believed to be tightly related to the strategic responses that organizations undertake (Eggers and Kaplan, 2009, 2013). However, besides the call for linking scholarship on managerial cognition with that on capability development, it is until recently when scholars started to examine more in depth the cognitive micro-foundations of organizational capabilities.

Following Teece’s call (2009) for more research studies on the role of the entrepreneurial manager in the process of developing dynamic capabilities and orchestrating the company’s assets, a number of research studies exploring the effects of managerial characteristics and cognition as micro-foundations in the dynamic capability development process have emerged. In 2005, Gavetti suggested a model showing that the managers’ cognitive representations of a strategic decision issue tend to influence organizational search and the accumulation of a firm’s capabilities. The findings of the scholar’s study show also that the above process depends often on the managerial hierarchy within an organization. Furthermore, Gavetti argues that most of the research studies on capabilities’ micro-foundations have been based mostly on evolutionary economics routine-based foundations, leaving research on the role of managerial cognition quite limited. In response to Gavetti’s (2005) appeal for more research studies on capabilities’ cognitive micro-foundations, Laamanen and Wallin (2009) have taken a closer look at the role of managerial cognition to examine its effects on the development of a firm’s organizational capabilities. According to the authors, managerial cognition tends to impact differently the three levels of the capability development path – the level of operational capabilities, the level of a company's capability portfolio and the extended enterprise level.

In the level of capability development, the managerial cognition has an instrumental role, as the previous managerial experience and thoughts tends to define to a large extent the actions and the choices of the managers in the process of developing capabilities. The strategic decisions of managers to initiate a particular idea are tightly related to their individual interpretations about the efficacy of the idea and the changing institutional context (Narayanan et al., 2009). At the level of firm's capability portfolio, managers may decide to shift their attention from developing one operational capability to another when the operational capability enters a different lifecycle stage (Laamanen and Wallin, 2009). When exploring the development capability path at an organizational group level, the scholars argue that the managerial foresights tend to affect the capability morphing processes over time.

By applying theories in social cognitive neuroscience and neuroeconomics, Hodgkinson and Healy (2011) differentiated between the different effects of emotional/nonconcious and conscious cognitive processes on firm's strategic adaptation. According to the scholars the key prerequisite for a successful sensing, seizing and transforming of capabilities and resources is the construction of cognitive and emotional capacity links among the firm's employees (Hodgkinson and Healey, 2011) Interested in exploring the importance of the links between the cognitive frames of company's employees in the process of capability development, Pandza (2011) redirected the research attention from the exploration of top managers' cognition towards the study of group-level cognition and its effects on strategic input and autonomous actions. Based on his observations on the group dynamics in a large pharmaceutical company, Pandza (2011, p. 1040) implied that in cases where a particular group in an organization is highly motivated to differentiate itself from the rest of the groups in the organization and to improve the status of a particular capability, it becomes highly proactive. In such cases, the group members collectively look for actions, which would legitimize their arguments about the value of a particular capability and allow for the group's autonomous actions in the capability development path.

The cognitive rationality of organizational members is tightly related to their experiential learning and the behaviour of the firm (Felin et al., 2012). As such cognitive representations, forward and backward-looking cognitive aspects can advance as well as to constraint capability development and evolution. (Tripsas and Gavetti, 2000; Hoopes and Madsen, 2008; Felin et al., 2012). It has been argued exactly these managerial cognitive perceptions of the existing environment to be essential for the emergence of company's dynamic capabilities. In their study on how managerial cognition influences the evolution of capabilities in the case of Polaroid, Tripsas and Gavetti (2000, p.6) found that when Polaroid's senior managers believed in the pursuit of impossible technological advances, the firm invested significantly in developing technical capabilities for digital imaging.

In a recent study, Eggers and Kaplan (2013) identify three processes through which capabilities and cognition interact – the process of construction, the process of assembly and the process of matching. The first process refers to the way cognition participates in the development of routines, which the authors perceive as building blocks of organizational capabilities. Managerial own experience and knowledge informs the way they interpret the surrounding environment and decide to undertake a specific action. This second process of accumulating different interpretation is defined as assembling. The last matching process refers to a manager's choice of an action based on his interpretation of the environment.

These managerial cognitive perceptions and interpretations of the environment are most of the time based on past historical experience rather than on actual managerial knowledge about the changing institutional context (Tripsas and Gavetti, 2000).
In times of institutional uncertainty, organizational members may have different perceptions regarding an evolving issue or situation. Such differences in organizational members' cognitive structures (e.g. mental models, knowledge sets) may challenge the process of problem formulation and lead to conflicts across business units and teams

(Baer et al., 2013). Heterogeneity in the perceived objectives may undermine the processes of knowledge and information sharing and lead to political manoeuvring of company's agents at the cost of the depletion of scarce resources (e.g. time, memory and attention) (Baer et al., 2013, p. 205). Such dynamics in the overall organizational cognitive structure tend to influence the development path through which specific organizational capabilities emerge (Jacobides and Winter, 2012). On an industry level, this leads to differences in companies' core capabilities and strategy formulation practices (Nelson, 1991).

Another aspect of managerial cognition as an individual-based capability micro-foundation has been argued to be the notion of *mindfulness*, defined by Weik and his colleagues as the ability to see the limits of a particular category while being aware of new information and small on-going organizational failures (Gärtner, 2011).

Besides individual level micro-foundations such as managerial perception, experience and cognitive frames, some authors (e.g. Foss and Lindenberg, 2013) have addressed the importance of *individual motivation,* highlighting the strong interconnection between managerial motivation and cognition. In Foss and Linderberg's view (2013), when organizational members have the same motivation and interpretation of a particular, organizational objective, they will direct their actions towards the achievement of the same goal, which will facilitate the development of a specific, targeted organizational competence. On the contrary, a vivid dissonance in the individual motivation of organizational members, especially its business leaders may delay or even stop the enactment of a particular strategic initiative. The managerial motivation is a cognitive process, which is intrinsically selective and is governed by individual's *goal-frames* (Foss, 2011). Namely, goal-frames define the way individuals explore knowledge, process information and choose among alternatives (Foss, 2011, p.1423). Overall, although researchers have started to assess the role of individual-level factors in capability development, there is still a need for research studies exploring which specific individual level based micro-foundations under what factors matter the most for building specific operational and dynamic capabilities (Felin et al., 2012).

Organizational processes defined as a “sequence of interdependent events” (e.g. Felin et al., 2012) that are both time- and contextually dependent tend to inform the development of dynamic capabilities, company’s survival or/and organizational change (Felin et al., 2012). Felin and his colleagues (2012) highlight that some of the research on processes as capability micro foundations has been focused on exploring the relationship between firm’s technology and individuals, in specific the processes of interaction between material artefacts (e.g. PowerPoint presentations), coordination and communication mechanisms and company’s employees.

Among process-based micro-foundations, processes of coordinating, legitimization, learning and engagement play a substantial role in capability formation. Coordinating allows the allocation and the alignment of heterogeneous motives in the face of company’s diverse groups of stakeholders. The nature and type of processes involved in capability development will depend on the type of capability and the context in which a given firm operates.

The interaction between specific time-dependent organizational processes plays a central role in the formation of specific capabilities. Through social interaction, actors align their values, practices, modes of communications and implementation (Tsai and Ghoshal, 1998). Agents at different levels of the organization as well as across the institutional context form or terminate relational contracts such as informal or formal agreements, which affect managerial practices and accordingly certain organizational capabilities (Gibbons and Henderson, 2012).

However, besides its importance for understanding how micro and macro level mechanisms form synergistic bonds that influence the emergence of organizational capabilities, the research conversation in this domain has been relatively scarce (Fabrizio, 2012).

Organizational *structures* such as a firm’s governance structure, rules, organizational design, performance indicators of a business department, objectives as well as structure of decision-making have been specified to be influential micro-components of companies' activities, firm-specific processes and capabilities (Felin et al., 2012; Jacobides and Winter, 2012; Eriksson, 2014). The organizational structure defined by Mintzberg (1979, p.2) as the "sum of the ways in which it divides its labour into distinct tasks and then achieves coordination among them" can be mechanistic, where centralized decision-making, formal rules and procedures prevail, or organic in nature, defined by de-centralized decision-making, open communication and less formality in executing initiatives (Wilden et al., 2013, p. 74). The latter encourages loyalty, creativity, and cooperation during changing institutional contexts. It is believed to be more beneficial for the positive attributes of a firm's dynamic capabilities and the way they affect the overall organizational performance.

Structure affects also a company's flexibility and efficiency in dealing with day-to-day business activities. Eisenhardt, Furr and Bingham (2010) suggest that this happens in opposite directions. On one hand, an organization with a more rigid structure improves the overall efficiency of business activities but detriments its flexibility in responding to unusual events and corporate mistakes. On the other hand, the less rigid the structure of an organization is, the greater the organizational flexibility is and the ability of the company to make and implement business initiatives faster than competitors. However, the downside of less structure and more flexibility is the increased probability of more mistakes and the higher cost in solving the occurred problems. The structural construction of an organization is tightly linked to the balance of formalization versus flexibilization of organizational practices (Mattes, 2014).

The possession of dynamic capabilities has been argued to allow for heterogeneity, a key for a given company's competitiveness in the market place. According to Argyres and his co-authors (2012), the specific form of a company's governance structure impacts the development of its strategic capabilities and therefore it defines the firm-level heterogeneity. Therefore, governance structures are integrally entangled to organizational capabilities (Argyres et al., 2012, p.1216). Next, capability learning mechanisms in the evolution of dynamic capabilities are discussed.

2.5.3 Development mechanisms in the evolution of dynamic capabilities

A number of mechanisms have been proposed to participate and direct the development process of dynamic capabilities (Barreto, 2010). The role of learning mechanisms in the creation and evolution of capabilities has been undoubtedly the most widely discussed one. Capability learning mechanisms are important in developing competitive advantages as they improve an organization's ordinary or substantive capabilities, which have been defined as a set of abilities and resources central for solving a problem or achieving an outcome (Prashantham and Flyod, 2012, p. 4). Moreover, according to Prashantham and Flyod (2012, p.4),

Organizational learning mechanisms are believed to be essential elements for organizational adaptation and survival especially in high velocity contexts, making it a key prerequisite for the understanding of the development of operational and dynamic capabilities (Winter, 2003). In the context of turbulent times, organizations need not only to improve existing capabilities but also to build new dynamic capabilities, which can allow them to overcome market-related and governmentally related threats.

2.5.3.1 Learning mechanisms in the capability development process: A three-level perspective

Organizational learning is argued to be better understood through the examination of the different learning modes sequentially at three levels – micro- , looking at the individual perceptions and actions, meso-, concerned with the interactive and shared understanding of group members, the evolving processes as well as the organizational level (Crossan et al., 1999). Research works on capability development has been further advanced by exploring how learning shapes the development of dynamic capabilities on different levels of operations – individual level, process level and organizational level.

The specific learning mechanisms on each of these three levels of study shed light on the micro-foundations constituting the dynamic capabilities of an organization. In the centre of understanding the specific dynamics across levels has been the study of the cognitive and behavioural tensions and their relationships, which constitute organizational knowledge (Fiol and Lyles, 1985; Crossan et al., 1999). Such research studies have explored the link between cognition and action and how in particular the evolution from tacit to explicit knowledge (e.g. Nonaka, 1994; Crossan et al., 1999) or from the ostensive to performative type of learning takes place in capability creation (Prashantham and Flyod, 2012) (Table 2.3).

Table 2.3: Capability learning processes: A micro-foundation-based perspective

Individual based	Process-based	Organizational (structure) based
Sensemaking Accumulation Intuiting Interpreting Evaluaton Articulation Externalization	Combination Recombination Activation Reconfiguration Assimilation Legitimizing Mobilization	Institutionalization Replication Integration Implementation Enactment Codification

Source: Compiled from Nonaka (1994), Crossan et al. (1999), Zollo and Winter (2002), Verona and Ravasi (2003), Helfat and Peteraf (2003), Rothaermel and Hess (2007), Naryanan et al. (2009)

2.5.3.2 Individual-based learning mechanisms

According to Crossan and her colleagues, learning process in their study on strategic renewal emerges in the individual level through the *intuiting* process, defined as the individual subconscious recognition and sensing of possible actions. In authors' perspective individual intuitions are possible to inform the actions of the rest of the group members if they are communicated with others. Similarly to Nonaka (1994), Crossan et al. (1999) suggest the employment of metaphors in the verbal language to assist the interpretation of the matter on the individual level. However, not all learning process models start on the individual level. According to Nonaka's earlier theorizations (1994), the individual level *externalization* stage starts after the discussed by the author process level – s*ocialization* and *combination* phases. and occurs when the members of an organization are learning by questioning old premises and logics about organizational frameworks and practices and reconstruct them to create new explicit knowledge. To some extent, the externalization mode shares some commonalities with Argyris and Schon (1978) “double-loop learning” and unlearning mode discussed by Hedberg (1981).

In their highly cited work, Zollo and Winter (2002) addressed the organizational learning mechanisms through which dynamic capabilities emerge. Similarly to Nonaka’s (1994) learning model, in Zollo and Winter’s model learning commences on the organizational level through the variation stage. In this first stage, members of the organization scan and recombine ideas based on previous shared experience, previous routines, and tacit knowledge. This generates some new ideas which are later evaluated and legitimized influenced by organizational power structure, marking the second stage of the authors’ framework – *internal evaluation*. The internal evaluation takes place on the individual level as it requires a greater cognitive effort. Individual members of the organization make sense of the intended group level actions.

Within the context of continuous innovation, Verona and Ravasi (2003) suggested the development of new capabilities commences on individual level with the establishment of network and the firm’s collaboration with researchers from prestigious institutions and research centres working with almost full autonomy on different research projects allowing for more exploration and experimentation. In the case of market or organizational change, the individual managerial experience and embedded knowledge would influence the way individuals make sense of a particular issue or phenomenon. Therefore, differences in the previous experience and embedded skills among individuals within the same organization can lead to variation in the tacit knowledge or intellectual capital through which they accumulate knowledge and assess the external environment (Rothaermel and Hess, 2007). In similar vein, in their longitudinal study exploring the development of two dynamic capabilities over a nine-year period in the context of the pharmaceutical industry, Narayanan, Colwell and Douglas (2009) also emphasized the importance of the individual-level knowledge *articulation*, through which individuals make sense of an issue in the capability learning process.

2.4.3.3 Process-based learning mechanisms

The evolution and the interplay between tacit and explicit knowledge in organizations has been explained through a variety of different concepts addressing similar semantics. On this level of analysis, researchers have addressed the way shared understanding and coherent mutual actions emerge through the socialization and dialogue among organizational groups members (e.g. department work groups) discussed as the *(re)combination* stage (Nonaka, 1994; Crossan et al., 1999; Verona and Ravasi, 2003) or as the *activation* stage in Narayanan, Colwell and Douglas' (2003) terms. This mode occurs through the process of exchanging and reconfiguring information during employees' meetings, telephone conversations. These processes allow organizational teams to mobilize themselves and develop a collective approach of action for coping with the issue (Narayanan et al., 2003). Individuals with a greater intellectual capital are likely to share knowledge with less talented employees when socializing during work projects. This collective interpretation and assimilation of knowledge can lead to more innovation and creativity when reconfiguring current capabilities (Rothaermel and Hess, 2007). According to Nonaka (1994), the shared experience between members of the team allows for further trust building within the team, which on the other hand would facilitate the externalization process of transforming tacit knowledge into an action. Furthermore, a firm's specific external network alliances with other parties inside and outside the industry (e.g. R&D centres, universities) are likely to optimize the flow of information and enhance the choice of strategic resources, essential for building of dynamic capabilities.

In cases of market changes such as the introduction of a more attractive product by competitors, this would require the firm to leverage its resources and recombine structural, physical and managerial resources. Changes into a more informal and loose organizational and governance structure tend to stimulate creativity and facilities the reorganization of the assimilated knowledge and enhances capability learning (Ravasi and Verona, 2003). Similarly, in Helfat and Peteraf's (2003) capability development lifecycle model, the process level learning started when an organizational team gathers together in order to accomplish a specific objectives. In this stage usually learning by doing takes place that is shaped by the experience of the members working together on previous tasks. In cases of organizational or/and financial crises, a company may decide also to recombine certain capabilities, which can lead to capability renewal. In other circumstances such as high competition, a firm may decide to shift (redeploy) certain capabilities in a different market and context of operations. However, in situations of weak financial performance, a firm may choose to close a particular plant which may lead to the *retrenchmen*t (decrease) of certain capabilities or event their *retirement* (death).

2.5.3.4 Organizational - based learning mechanisms

The organizational level learning process starts once certain ideas and actions are approved and they are diffused in the context of operation. In this stage of capability learning, the new legitimized actions become routinized and embedded in the organizational structures and systems. Nonaka (1994) and Crossan et al. (1999) have referred to these stages accordingly as *internalization* and *institutionalization* stages. This phase in Zollo and Winter's model is defined as *replication*. According to the scholars, in the process of replicating existing routines in new context, new information is gathered in regards to effectiveness of those routines in the specific context (e.g. dealing with hyper competition). This leads sometimes to the modification and improvement of existing routine as well as the creation of new ones. Once new venues are underlined for existing routines or new actions emerged, this leads to the last phase *the enactment* stage or retention of these routines until new pressures arise questioning their effect on the organizational performance. The codification of the new organizational capabilities is usually supported through the use of process-related manuals and tools (Zollo and Winter, 2002). According to Verona and Ravasi (2003), the easy access to the organizational codified knowledge, a substitution of unnecessary physical barriers with new working environment such as more mobile workstations and open working spaces, facilitate the integration of new specialized dynamic capabilities and in particular the firm's innovation capabilities. The stability that is achieved through the routinization of new actions and capabilities has been described also as the *maturity stage* in the capability building process (Helfat and Peteraf, 2003). The implementation of new capabilities tends to evolve a certain shift in both the beliefs and behaviours of organizational members (Narayanan et al., 2009).

2.6. The changing institutional context

The institutional context has been argued to be necessary element in the study of capability development as it underpins not only the specific content of an organizational capability but also the underlining it learning mechanisms. In this regard, Dunning and Lundan (2010, p.1241) referred to the development of a specific organizational capability to be institutionally contingent. Both internal and external institutional pressures shape the process through which specific organizational capabilities emerge (Hoopes and Madsen, 2008; Newey and Zahra, 2009). However, although environmental antecedents tend to be built in the institutional context in which specific organizational capabilities emerge, empirically they have not been addressed explicitly (Eriksson, 2014). In this regard, there is an urgent need for empirical studies discussing the external and internal institutional factors that inhibit or accelerate the process of capability development.

Collectively, institutional theorists have identified different institutional factors to exist in the social context in which companies operate and develop a specific type of dynamic capabilities (Dacin et al., 2002; Kostova and Roth, 2002; Bansal, 2005 Doh et al., 2010).

2.6.1 Institutional pressures for change

Diverse types of institutional pressures trigger changes in individual and organizational behaviours, and in decision-making processes (North, 1991; DiMaggio and Powell, 1983; Oliver, 1992; Scott, 1995). The sustainable development of firms depends on their ability of the firm's management to respond adequately to the corresponding institutional dynamics of the environment. Table 2.4 presents a summary of some of the discussed in the literature institutional pressures. Nonetheless, what institutional pressures influence the development of dynamic capabilities and how they do so depends on the degree of environmental dynamism.

According to DiMaggio and Powell (1983), in institutional contexts, which are, ambiguous and uncertain, companies may adapt to similar organizational structures. Three main institutional pressures may account for such isomorphic behaviour – mimic pressures, coercive pressures or normative pressures. Mimic pressures result during high uncertainty when companies start to model existing successful structures and practices of competitive organizations in the same industry context. In terms of sustainability practices and development, companies may mimic visible activities such as environmental audits and management systems supporting a company's sustainability strategy. Such mimic behaviour may be beneficial for the company as it may reduce the chances of stakeholders' discontent and related financial penalties (Bansal, 2005).

Table 2.4: Types of Institutional pressures

Author (Year)	Types of institutional pressures	Description
DiMaggio & Powell (1983)	Mimetic Coercive Normative	*modelling existing structures and practices* *strict governmental rules and laws* *similarities in problem solving approach*
North (1991)	Formal Informal	*strict rules and regulation* *norms of behaviour, self-improved codes of conduct*
Oliver (1992)	Functional Political Social	*competition, introduction of tech innovation* *internal organizational conflicts* *changing institutional rules and values*
Scott (1995)	Regulative Normative Cognitive	*legislative rules, procedures, court decisions* *specific norms and ethics of operations* *deeply held beliefs and logics*

Source: Author

Coercive pressures are outcome of strict governmental rules and laws that may lead to high sanctions and lack of government support if a company fail to comply with them. Research studies (e.g. Bansal, 2005) have found a positive correlation between a company's previous responses to government penalties and other fines and its sustainable development.

The last, normative pressures result from similarities in the attitude, the approaches of problem solving, the experience of members as well as their professional network within and outside the firm. In DiMaggio and Powell's view, the described isomorphic pressures are more likely to affect a company in its mature lifecycle stage of development, and less likely in their introductory stage.

Similarly, Oliver (1992) distinguishes among functional (e.g. increasing competition, introduction of innovative technologies), social (e.g. changing institutional rules and values) and political (e.g. internal organizational conflicts) factors. According to the author, institutional pressures may inspire organisations to be conforming/resistant, passive/ active, preconscious/controlling, impotent/influential, or habitual/opportunistic (Oliver 1991). Scott (1995, 2001, 2008), on the other hand, identifies three main pillars of the institutional context – regulative, normative and cognitive – that individually and synergistically may influence organizational processes of capability development. *Regulative factors* concern legislative rules, court decisions, events and procedures, and have a high impact on company-specific processes. *Normative forces* are found in the norms, values and ethics of operations, and are usually described in an organization's code of conduct. The normative pressures that a company experiences are closely related to behaviours that are taken for granted and they are often embedded in the company's discourse with stakeholders. Finally, *cognitive aspects* of institutions concern assumptions and deeply held beliefs (Scott, 2008).

According to Oliver (1997, p. 100) if a company manages to build a high-quality relationship, or a *"harmonious, non-constraining and perceived as satisfactory or useful to the partners, involved in the relationship"* with its institutional context and in particular with the underlying it norms and regulations, this will facilitate its ability to sustain its competitive advantage in a given marketplace. The underlying institutional dynamics in each of these three pillars can be mutually reinforcing. An increased intensity in one pillar can affect the dynamics of the other two. As a consequence, in order to survive in changing institutional environments, organizations need to respond legitimately to the generally accepted perception of appropriate behaviour in the socio-economic milieu (Leca et al., 2008).

The variety of institutional pressures is rooted in the key concern of organizations to acquire and maintain legitimacy in the eyes of their stakeholders (Dacin, 1997; Deephouse, 1996; Suchman, 1995). Namely, organizational legitimacy requires organizations to conform to the rules and belief systems prevailing in the institutional environment (DiMaggio and Powell, 1983; Meyer and Rowan, 1977, Scott, 1995). The inability of organizations to respond legitimately to the generally accepted rational of what is perceived as appropriate in the socio-economic milieu, may threaten their survival and stability in the marketplace (Leca et al., 2008). However, although compliance with social and normative expectations is a challenge for all companies in a specific organizational field, legitimacy issues are likely to affect some firms more than others.

Dowling and Pfeffer (1975) have suggested two reasons explaining these differences. The first concerns the *visibility* of an organization in the public sphere. The second refers to the company's degree of *dependence* on social and political support. Echoing strategic and institutional approaches of legitimacy, Suchman (1995:571) introduced pragmatic (based on the self-interest of stakeholders), moral (based on stakeholders' approval of firm's normative behaviour) and cognitive legitimacies (based on salient norms and values embedded in the society's culture). These types of legitimacy pressures have been recapitulated to *regulatory endorsement* and *public endorsement* (Deephouse, 1996). The first describing pressures for gaining legitimacy from governmental institutions and the latter referring to general public's approval of a company's activities.

In turbulent times, such as the 2008 financial crisis, coping with these two types of pressures is essential for a company's survival (Rowley, 1997). Companies need to engage and maintain a solid relationship with stakeholders of different power. They need to balance and navigate through pressures from both shareholder and stakeholders (Neville et al., 2011). This is often a hard task to accomplish regarding the limited resource base of companies operating in turbulent and uncertain environments. In the context of such events, media coverage may be both an inhibitor and an accelerator of positive or negative public endorsement as it increases substantially a company's visibility in the social milieu (Bansal, 2005).

The dynamism of the institutional environment in which organizations operate tends to determine the effect that particular institutional pressures may have on the genesis of dynamic capabilities. The following section examines the role of environmental dynamism in the evolution of dynamic capabilities.

2.6.2 The role of environmental dynamism in dynamic capability development

Environmental dynamism and institutional uncertainty are clear determinants of organizational behaviour and capability evolution (Schreyogg and Kliesch, 2007). Drnevich and Kriauciunas (2011) refer to market dynamism as those changes in a given competitive industry landscape that impact firms' competitiveness and their ability to respond to stakeholder needs and new industry developments.

In the capability literature, the relationship and the dynamics between the changing institutional context and the development of specific dynamic capabilities has remained relatively underexplored. Although research studies have implied the importance of building and refiguring the company's capability depository in order to sustain their competitive advantages and survive volatile institutional environments, a fine-grained study on the effect of different degrees of environmental dynamism on the capability development process is still absent in the research scholarship (Schreyogg and Kliesch, 2007). Organizational capabilities develop through time; therefore they are interconnected tightly with the temporality of endogenous and exogenous institutional, contextual dynamics. A more in-depth observation on the way institutional dynamics shape and define the evolutionary path through which specific capabilities emerge through time is necessary.

A few research studies have contributed to the current understanding of the relationship between organizational (both dynamic and non-dynamic) capabilities and the changing institutional context (e.g. Eisenhardt and Martin, 2000; Hine et al., 2014). According to the Eisenhardt and Martin's (2000) study, in a stable and a moderate institutional environment, the dynamic capabilities of a firm are unchanging, routinized processes with predicted outcomes for the firm, while in highly dynamic institutional context; they are fairly fragile and experiential rather not routinized and built on previous knowledge. However, the authors describe them also as being "difficult to sustain" due to managers' uncertainty and ability to overcome organizational inertia. In relation to this argument Schreyogg and Kliesch (2007) remind about managers' challenging task in overcoming the "Icarus paradox" and the fact that continuous organizational success can short-sight managers in detecting the detrimental effect that the changing environment may exercise on their competitive advantages. Ambrosini, Bowman and Collier (2009) joined the scholarship conversation by elaborating that the degree of environmental dynamism is a subjective matter, based primarily on managerial perception on how dynamic an institutional context is and how potentially it can affect a firm's dynamic capabilities base. The scholars argued that based on manager's perception of the market context, a firm can operationalize one of three types of dynamic capabilities - incremental dynamic capabilities, renewing dynamic capabilities and regenerative dynamic capabilities. The scholars share the view of Eisenhardt and Martin (2000) that dynamic capabilities exist also in stable market contexts rather than in only rapidly changing environments (e.g. Teece et al., 1997).

In this line of reasoning, Ambrosini and his colleagues suggested in stable institutional context, a company's continuous improvement in the firm resource depository result from the embedded and repeatable incremental dynamic capabilities in the firm. As an example of incremental dynamic capabilities, the researchers illustrated the continuous reconfiguration processes of a technology company in order to maintain a continuous energy usage reduction. The scholars share the view of Eisenhardt and Martin (2000) that dynamic capabilities exist also in stable market contexts rather than in only rapidly changing environments (e.g. Teece et al., 1997). Thus, Ambrosini and his colleagues suggested that in stable institutional context, a company's continuous improvement in the firm resource depository result from the embedded and repeatable incremental dynamic capabilities in the firm. As an example of incremental dynamic capabilities, the researchers illustrate the continuous reconfiguration processes of a technology company in order to maintain a continuous energy usage reduction. In contrast to incremental dynamic capabilities, which maintain the resource base of the firm and keep it relatively unchanged, the renewing dynamic capabilities of the firm are concerned with the modification and the introduction of new resources in the firm's resource base. The enactment of renewing dynamic capabilities happens within an institutional context, perceived as relatively dynamic from a company's top managers.

However, in times of extremely turbulent environment, in order to survive a company needs to renew its existing dynamic capabilities through regenerative dynamic capabilities (Ambrosini et al., 2009). Contrary to the other two types of dynamic capabilities, which affect the resource base of the company directly, the regenerative dynamic capabilities impact directly only the firm's dynamic capabilities by changing either their forms or configurations (Ambrosini et al., 2009, p. 18).

Similarly, to Ambrosini et al. (2009), Hine, Parker, Pregelj and Verreynee (2014) proposed a hierarchical view of dynamic capabilities in relation to the external environmental velocity. The authors define dynamic capabilities as being dynamic learning capabilities in high-velocity environments, dynamic functional capabilities in medium-velocity environment and first-order ordinary capabilities in low velocity or stable environments. In contrast to ordinary capabilities which are essential for coping with a company's day-to-day activities by using the firm's existing resources and routinized practices, dynamic learning capabilities consist of different learning activities which assist in building new knowledge essential for the organizational survival in high-velocity markets, mainly by relying on creativity and experimentation (Hine et al., 2014). However, as a central difference between these types of dynamic capabilities, the authors indicate also a company's specific focus on sustainability. According to the authors, long-term strategic focus on sustainability is indicative to dynamic learning capabilities, while short-term strategic focus is related to ordinary, operational capabilities.

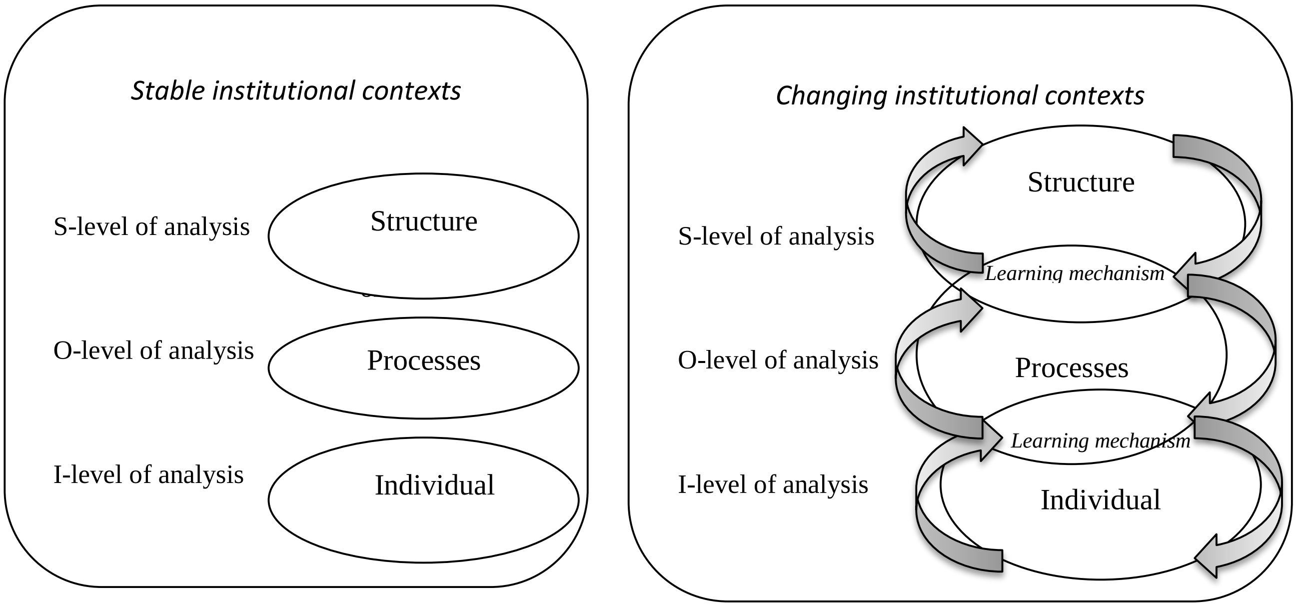
Overall, the existing scholarship pertain to a vague and mainly conceptual rather than empirical discussion on how institutional context shapes the *nature* of dynamic and operational capabilities, rather than a thorough study in relation to the *emergence* of a specific organizational capability and the underlying it learning processes (Easterby-Smith et al., 2009).

2.7 Setting up the scene for this study's contributions: Key research gaps and research questions

The review of the scholarship reveals a number of areas which have been comparatively neglected in the organizational capability research. A number of authors have commented that on the empirical front, dynamic capability based research continue to be limited, relatively divergent in presented findings (Ambrosini and Bowman, 2009; Peteraf et al., 2013). The aim of this study is to extend the literature by addressing several gaps in the literature. The focal research gap is in the missing understanding of how particular set of organizational capabilities emerge through time and changing contexts. Besides recent calls for a more in-depth, co-evolutionary exploration of the development of dynamic capabilities by examining the learning processes that shape capabilities across different levels and across time, a very few research studies track through a multilevel and temporality-based approach reveal underlying managerial activities and mechanisms through time and context (Easterby-Smith et al., 2009).

Consistently with the call for more research in this stream of the capability literature, this study aims to explore in-depth the micro-foundations that compose the development of a specific dynamic capability – sustainability banking capability- in an environment of changing institutional contexts and business uncertainty (Figure 2.8).

Figure 2.8: The current focus of the capability literature and the focus of this study



Present studies' research Focus **This study's research focus**

Source: Author

Methodologically, the capability research field has been dominated by relatively large number of quantitative studies and few qualitative studies. In a particular, there is a scarcity of longitudinal studies exploring the development of dynamic capabilities processual through time, which is beneficial for illuminating the practice of dynamic capabilities in a specific organizational setting (Esterby-Smith, 2007, p.6). On methodological grounds, this study aims to contribute to this call by adapting a process research design and analysis.

In light of the literature review, the following research question and sub-research questions are defined and will be addressed in this thesis:

RQ: How do companies develop a specific type of dynamic capabilities (sustainability banking capability) in changing institutional context?

> *RQ1: What micro-foundations participate in the development of sustainability banking capability and how they do so?*
>
> *RQ2: How do the changing institutional context and its dynamics influence the development process?*

2.8 Summary

This chapter outlined the main theoretical and empirical developments in the field of organizational capabilities. It discussed also the specific content, that of sustainability, of an organizational capability in which this study is interested. The chapter then continued with a brief discussion of the potential learning mechanisms, which have been discussed to date in the literature. Next, types of institutional factors and degrees of environmental uncertainty were reviewed in correlation to the second sub-research question. Next, the following chapters, three and four, discuss the adopted process research design, methodology and analysis techniques.

CHAPTER THREE: PROCESS RESEARCH DESIGN AND METHODOLOGY

3. 1. Introduction

The following chapter discusses the research design of this study exploring the development of sustainable banking capabilities during turbulent times based on the case of the Royal Bank of Scotland. The main focus of this chapter is to justify the author's choice of implementing a process-oriented research design by highlighting the epistemological, and ontological assumptions that inform the study, as well as the methodological approach, adopted to explore the research questions in this study. The chapter starts with a critical discussion of the epistemological and ontological roots and the choice of process-based interpretivist epistemological stances. Then, the rationale behind the adoption of a process methodology and details concerning the employment of a single case study approach and abductive theory development strategy are presented. The chapter concludes with a concise summary of the discussed process research design.

3.2 Epistemological and Ontological Roots

Epistemological and ontological assumptions form the basis of the researcher's understanding of specific knowledge content and the relationship between the people forming this knowledge and social reality (Van de Ven, 2008). In social science, ontology is defined as the study of being while epistemology refers to the way the world is perceived and the way researchers make sense of the observed reality (Blaikie, 2009; Crotty, 1998, Van de Ven, 2007). However, besides the fact that these two theoretical assumptions focus on explaining different subjects, they are tightly intertwined (Crotty, 1998). The researcher's choice of one is a reflection of the other.

3.2.1 Ontological Roots: Process vs. Substance

Two ontological perspectives on how everything that surrounds us is composed, rooted in the science of metaphysics, have been defined in the scholarship field – process vs. substance ontology (Langley and Tsoukas, 2010). The roots of these two ontological perspectives have been traced back to the way the Greek philosophers – Democritus and Heraclitus perceived reality. In his work, Rescher (1996) relates Democritus' perception of nature as being composed of material things to substance ontology and Heraclitus' perception of reality as being composed of groups of processes to process ontology.

The key difference between substance and process ontology is in the way the relationship between subject and action is realized. Process ontology in contrast to substance ontology perceives everything as a composition of processes (sequence of actions) which are likely to change the subject ('self') as it is performing the process. In this sense, process is a fundamental, constructive part of the world. On the contrary, substance oriented ontology recognizes the existence of processes but perceives them as steady in nature. In this sense, although the subject ('self') can change the activity one is performing, the activity is not likely to change the performing actor. In the field of management and organization science, followers of process ontology (e.g. Weick, 1979; 1993; 1995; Gioia and Thomas, 1996; Balogun and Johnson, 2004) see the organization as composed of interrelated processes leading to certain organizational behaviour which through time can mobilize different individual level behaviours which taken together can impact the overall organizational cognition and practice. This thesis adopts the process-based ontological perspective.

3.2.2 Epistemological Roots: Process vs. Variance Models

How we see the world and how we perceive a particular organizational phenomenon is tightly linked to our knowledge and what we believe to be true about the explored research phenomena. Two epistemological approaches in knowledge theorization are known to form the bases of social inquiry – process approach and variance approach (Mohr, 1982; Langley and Tsoukas, 2010). The latter is also referred to as a 'variable' approach (Mackenzie, 2000). One of the main differences between these two approaches is found in the distinct course of reasoning (narrative vs. logico-scientific thinking) that is involved in knowledge creation (Langley and Tsoukas, 2010). Due to its logico-scientific rationale of building causal-effect relationships, the variance approach (e.g. Mohr, 1982) provides explanation of a phenomenon based on dependent and independent variables. In contrast, the process epistemological approach has a narrative mode of constructing knowledge about a specific phenomenon. Instead of cause-effect relationship, process-based studies rely on building a chain of evidence by exploring the temporal character of series of events. Contrary to process-oriented research works, which are event driven, variance research is usually outcome driven (Van de Ven, 2007).

Within each of the two epistemological models (process vs. variance), there is a number of different epistemological categories used to explain how management knowledge is conceptualized. These epistemological dichotomies dictate different research strategies and methods applied in process- and variance-based studies. Table 3.1 presents a concise, short summary of these. Broadly defined, process model research studies are subjectivist in their view towards the world, while variance model studies are objectivist in their ontological and epistemological view.

Due to their subjectivist nature and narrative reasoning, process research models assume things and actors to change over time and in the evolving sequence of events and activities hence knowledge to be socially constructed (Pettigrew, 1992; Langley, 2007). The idea of reality as a socially constructed phenomenon is shared by three main epistemological categories – subjectivism, social constructionism and conventionalism – and some of their mostly applied in the process research studies epistemological sub-categories also defined in the research literature as approaches (Blaikie, 1993) paradigms (Kuhn, 1970; Blaikie, 2010), philosophical positions (Eriksson and Kovalainen, 2008). Research studies which have adopted a process lens, have followed diverse epistemological approaches such as constructivism (Hewerdine and Welch, 2012), relational constructionism (Kovalainen, 2007), critical theory (e.g. Pettigrew, 1982), historical relativism (e.g. Burgelman, 2009) and empirical realism (e.g. Mintzberg, 1990; Das and Van de Ven, 2000). Variance-oriented studies postulate an objective view which sees reality as observable phenomenon independent from human actions. Therefore, a variance research studies can be based epistemologically and ontologically on one of the following categories: falsification, neo-realism, rationalism or empiricism.

In contrast to variance-model research studies which are positivistic in their scientific explanation, process research studies can share a combination of both positivistic and constructionist approaches as well as a combination of utterly interpretivist and subjectivistic paradigms (Langley and Tsoukas, 2010). According to Sminia (2009) such is the case in Pettigrew's work (1985; 1990) which shares mostly common ground with the critical realism approach. Critical realists disagree with the two extreme views of reality –social constructionism and the positivism. In fact, studies following the critical realism epistemology combine both positivistic and constructionist assumptions of the world, aiming to build bridges between objective and subjective perspectives. On the positivist stance, critical realists investigate the phenomena occurring in the world as independent events from human beings' actions while on the socially constructionist stance, they recognize the existence of deep structural arrangements and relationships (Bhaskar, 1998).

Table 3.1 Summary of Process vs. Variance models and their main epistemological categories

Epistemological models	Epistemological category	Epistemological sub-category	Research strategy	Research questions
'Process' model	Subjectivism Social-Constructionism Conventionalism	Interpretivism Constructivism Classical hermeneutics Critical theory Historical relativism Post modernism Post-structionalism Relational constructionism Empirical realism	Inductive Abductive	'What', 'How' 'Why' questions
'Variance' model	Objectivism Falsification Neo-realism Rationalism Empiricism	Positivism Logical positivism Critical Rationalism Social Realism Pragmatism	Deductive Retroductive	'Why' 'What' questions

Source: Compiled from Mohr, 1982; Van de Ven, 2007; Eriksson and Kovalainen, 2008; Blaiki, 2010

Differences between studies following process or variance epistemological traditions occur also in terms of the nature of the adopted unit of analysis. In variance-based research studies, the unit of analysis is fixed in time and space and is mainly a variable, while in process oriented research works the unit of analysis is primarily an event which can shape in content over time (Sminia, 2009; Welch and Paavilainen-Mäntymäki, 2013).

Furthermore, due to their ontological and epistemological differences variance and process-based research works tend to be interested in tackling different research questions. In contrast to variance research studies which are interested in answering '*why'* questions in order to explain the causes or/and the reasons for the existence of a particular phenomenon, process oriented research seeks to explore '*how'* and '*what*' research questions (Van de Ven, 2007; Sminia, 2009; Blaikie, 2010).

3.2.2.1 The Choice of Interpretivism

The objective of this research study is to generate knowledge about the development process of a specific organizational capability, in this study, sustainability-banking capability during turbulent times. The research inquiry is tackled through the prism of process-based ontological and epistemological assumptions. However, as the interest of the author of this work is to provide an understanding of the complex relationships and multiple meanings through which these capabilities are developed in the specific case of an organization that has survived a 'near death' experience, it is most rational to adopt the interpretivist epistemological sub-category.

The interpretivist epistemological paradigm, also described as 'social constructivism', is based on the assumption that reality is a subjective phenomenon developed though the multiple meanings that social actors produce in order to understand the surrounding world (Crotty, 1998; Creswell, 2012). The position that interpretivism is opposed to positivistic, objective understanding of the meaning-making process. In contrast to the objectivist epistemological stance that assumes that there is an objective reality, independent of the experience and perceptions of its social actors, the interpretivist paradigm assumes that reality is rather more subjective in its nature (Crotty, 1998). Moreover, it is based on the ontological belief that knowledge is constructed through the interaction and the relationships between people. Through time, these interactions are likely to produce multiple views of the same phenomenon. However, according to the interpretivist stance interactions between social actors do not occur in a vacuum. On the contrary, they are highly contextual (Crotty, 1998). Understanding the nature and the influence of a particular context on the interpretations of the social actors is a key objective of the interpretivist approach. Different contextual factors are dynamic determinants of the way a specific meaning is composed at a certain point in time (Godfrey and Hill, 1995; Williams, 2002).

The key role of the interpretivist researcher is to explore the complexity and the subjectivity of multiple meanings and the way contextual factors influence the construction of these meanings (Blaikie, 2010; Creswell, 2012). Researchers following the interpretivist paradigm are interested in examining the complex processes through which meaning is composed by looking in detail at the social actors' personal beliefs, language, labels, actions and routines (Morgan and Smircich, 1980; Eriksson and Kovalainen, 2008; Easterby-Smith, et al., 2008).In the social constructionist stance, the researcher is an interpreter of the complex social actions and beliefs but also of his own relationship and interaction with the studied context and phenomenon. Remaining reflexive of how his/her own interaction or understanding of the phenomenon may influence the interpretation of the researched phenomenon as well as the way the research data are analysed is an essential part of the interpretative research process (Eriksson and Kovalainen, 2008). In order to provide a deep understanding about the individual as well as the collective meanings of the explored phenomenon, interpretivist research requires the collection of rich, usually longitudinal, process data (Easterby-Smith, et al., 2008).

3.3 Process Methodology

The methodology in any research study reflects a researcher's way of thinking about and studying a particular social phenomenon (Cobin and Strauss, 2008, p. 1). This research study follows a process methodology. Process methodology is essential for constructing a full picture of the explored phenomenon, something which is less likely to be achieved through traditional cross-sectional methodologies based on the 'variance' epistemological model (Langley, 2007).

However, in contrast to variance oriented research studies, process methodology and methods are less established in the strategic management field, calling for more studies adopting a processual lens for exploring organizational phenomena (Sminia, 2009). One of the main reasons for this is the fact that process research requires the researcher's attention and interest in the explored phenomenon for a longer period of time (Tuttle, 1997; Bidart et al., 2012). An important part of the methodology in a process research study is to "catch reality in flight" (Pettigrew, 2012) but also to allow the researcher to trace back in history the unfolding of important events, and stories (Burgelman, 2011). This is usually done only through the collection of process data which has real-time and retrospective orientations.

Another reason for the limited number of research studies adopting a process methodology is the need for the triangulation of multiple sources, crucial for generating reliable and valid chain of evidence (Pratt, 2009). Due to the variety of process data sources and the analytical strategies used for data interpretation, the journey for every researcher involved in process research is unique and case specific (Hinings, 1997). As a result, to date there is no confirmed orthodoxy, or best practice in this area (Pettigrew, 2012, p. 1316). However, in the centre of every process research lies the understanding of the process as a phenomenon itself and its determining contextual constituents. In the next section, some of the most widely used definitions of process are presented.

3.3.1 What is 'a Process'?

> *"Process is fundamental: The river is not an object but a continuing flow; the sun is not a thing but an enduring fire. Everything is a matter of process, of activity, of change. " (Rescher, 2007:144)*

The term 'process' has been widely used in academic studies, and in particular in organizational science and strategic management literature. As mentioned, defining what process is and thinking in process terms have been associated with the works of earlier Greek and Roman philosophers (Hernes and Weik, 2007). However, in present terms, Frederick Winston Taylor who brought the concept of workflow into contingency theory from the perspective of a study on industrial organizations (Czarniawska (1996, 2007) is often pointed to as the father of contemporary processual approach. Today, the term "process" is still used tautologically across disciplines through the use of gerund - ‘ing’ at the end of the verb (Czarniawska, 2007). Although the meaning of the term is often taken for granted, the choice of a process definition is an essential building block for the construction of the story of the explored phenomenon in a process research study (Sminia, 2009). Table 3.2 summarizes some of the applied definitions of process in the management field.

One of the most applied process definitions is Van de Ven’s (1992, p.169) definition of a process as “a sequence of events which unveil the changing nature of the explored phenomenon”. In addition to this definition, Van de Ven (1992) proposes two other meanings of a ‘process’. The first meaning refers to a process as a logic that helps to explain the cause-effect relationship between independent and dependent variables while the second meaning looks at processes as categories of variables and concepts that inform individual or organizational actions. These two definitions are linked to the ‘variance epistemological type of process research’ (Sminia, 2009). In contrast to these two definitions of process research which are more static in nature, defining processes as clear-cut categories of actions which occur as a result of a particular input, the former definition of process is dynamic in nature, illustrating a process as a sequence of events which unveil the changing nature of the explored phenomenon. According to Pettigrew (1992) only the third definition proposed by Van de Ven (1992) is explicit in the observation of how organizational processes unfold through time in a particular organization, which makes it a preferable stepping stone in the strategic management process research studies which are developmental in nature and are interested in exploring *how* particular events change and evolve over time.

Rescher’s (2000:5) definition of process contains the concept that a process is “an actual or possible occurrence that consists of integrated series of connected developments”. This definition shares similar characteristics with Van de Ven’s third definition of process. Analogously, both authors refer to process as being composed of a system of related events embedded in the phenomenon under scrutiny. In addition to his definition, Rescher (2000) outlines three distinctive features of processes – their ability to develop over time, the ability to unfold over time as well as the fact that every process tends to be a part of a larger process itself.

Table 3.2 Key definitions of a 'process'

Author (Year)	Process Definitions
Weick (1979)	*"The processes themselves are also streams. They are social, and they involve multiple actors…Thus processes are assembled from flows, directed at flows, and summarize flows" (p.255).*
Van de Ven (1992)	*"Process as a logic that explains a causal relationship between independent and dependent variables".* *"Process as a category of variables and concepts that inform the individual or organizational actions".* *"Process as a sequence of events which unveil the changing nature of the explored phenomenon" (p.169)*
Rescher (1996; 2000)	*"Process is an actual or possible occurrence that consists of integrated series of connected developments unfolding in programmatic coordination: an orchestrated series of occurrences that are systematically linked to one another either causally or functionally" (p.5)*
MacKenzie (2000)	*"Process is defined as a time-dependent sequence of events governed by a process framework. Process framework consists of the entities (usually people) involved in performing the process, the elements or considerations used to describe the steps or stages in a process, the relationship between every pair of these elements, and the links to other processes" (p. 113).*
Corbin and Strauss (2008)	*"Process is on-going action/interaction/emotion taken in response to situations, or problems, often with the purpose of reaching a goal or handling a problem. The actions/interactions/emotions occur over time, involve sequences of different activities and interactions and emotional responses (though not always obvious), and have a sense of purpose and continuity" (p.96-97)*
Bidart et al. (2012)	*"Process is a combination of contexts, events (also), and dynamic interactions between them" (p. 2).* "*Process is made up of different sequences, each one being characterized by a (relatively stable) configuration of ingredients"(p.5).*

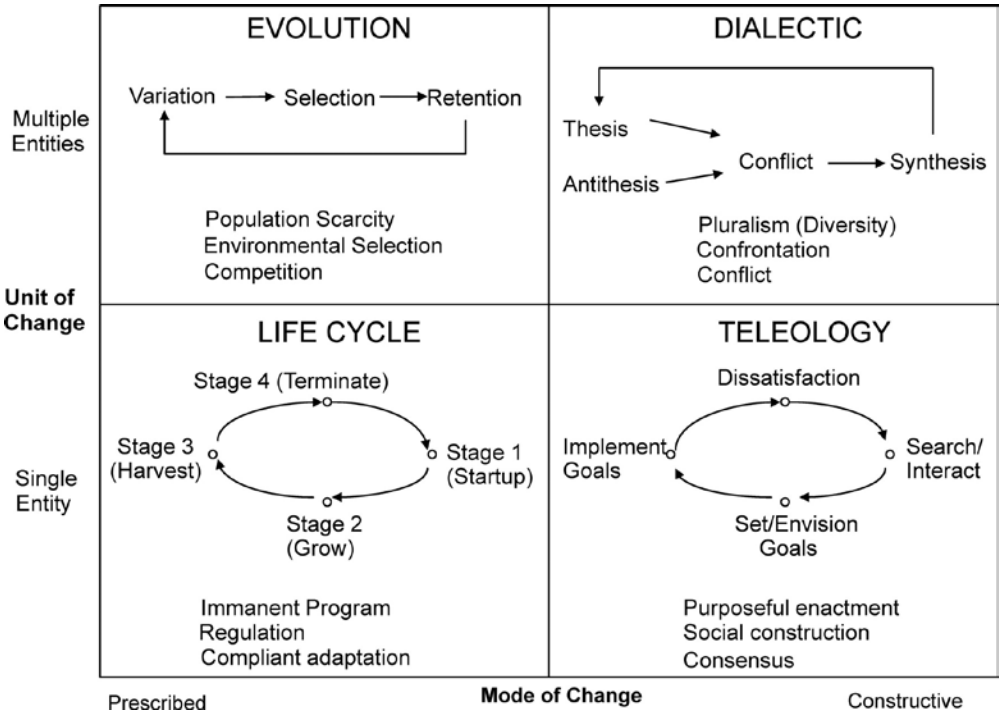
Source: Author

Overall, the process definitions presented below point out three important aspects of a process – they are sequences of interrelated events, composed of social actors' interactions and activities; they are time-dependent and contextually specific. This research study acknowledges all of these three key aspects of a process in exploring the development process of sustainable banking capabilities.

3.3.2 Process-Based Perspectives

The primarly objective of process-based research is the explanation of the development of a particular organizational process. Interested in the different scenarios through which an organizational process can develop and progress, Van de Ven (1992) has proposed four meta-theoretical perspectives, which he has entitled: life cycle process theory, teleology process theory, dialectic process theory, and evolution process theory. Each one of these theories refers to a specific form of event progressions, reflecting the path(s) through which an event can occur. Figure 3.1 presents visually these four meta-theoretical perspectives.

Figure 3.1: Van de Ven's meta-theoretical perspectives of organizational change



Source: Van de Ven and Poole (1995)

Life cycle theory is underlined by the assumption that the development of any organizational entity or inclusive process happens through sequences of historically and logically related events that form a particular stage. A particular organizational or institutional rule or a programme underlines the specific sequence of events and how they unfold. Van de Ven (1992) refers to this theory as being the most used theory in research studies focusing on development and change in management literature.

Studies adopting a life cycle process theory results usually in the development of a process model that shows the process as composed of a number of patterns, and a subset of events resulting in a particular form of behaviour. In contrast to the life cycle theory, the *teleology theory* does not associate the development of a particular entity or process as being composed of a sequence of events underlined by a particular logic which cumulatively progresses from one stage or event to another. It sees the development process as an organizational movement towards the realization of a specific goal. Research studies following a teleological process theory acknowledge the impact of the external institutional context on the development process and the fact that strong institutional changes can lead to shifts in the development path of a particular organizational entity or process (Van de Ven, 1992).

Dialectic process theory is the third type of process theory proposed by Van de Ven (1992). At the centre of this process theory is the assumption that in the process of developing an entity, there is a constant tension between opposite forces of adaptation and change which compete for dominance. Until there is a tension between these opposite forces, organizational stability is present. However, in a case when one of the opposite forces dominates the other, a process of organizational change emerges. The last type of Van de Ven's categorization is the *evolution process theory,* referred to as being an explanatory process theory. Evolutionary process theories involve three processes through which a particular organizational entity is developed and changed. These are variation, selection and retention. Variation refers to the process of emergence of new organizational forms, which happens usually sporadically and unexpectedly. Through the selection process a new form is chosen and in the last evolutionary stage, retention, it is maintained. The four separate process theories explore the organizational process as a dynamic, complex, non-linear phenomenon but tend to follow different logics in methodologically studying the process under observation (Sminia, 2009).

Besides, Van de Ven (1992), Hernes and Weik (2007) suggest an endogenous-exogenous perspective of process, based on the exploration of how stability of entities is used in the analysis of process related research studies. At the centre of the scholars' perspective is the distinction between the perspective that organizational processes are influenced by the stable factors situated in context in which they evolve and the perspective that an organizational process is a product of the connected entities that it embraces. The authors classify the former view as the exogenous view of process and the latter as the endogenous view of process.

According to the authors, two views in the organization studies literature can be characterized as exogenous. These are: the process-as-flows view and the process-as-programmes perspective. In the process-as-flows view, processes such as organizational communication, or enactment are seen as flows that are situated in a stable context such as artefacts, rules or regulations of a given organization department. The second exogenous view that Hernes and Weik refer to is nested in the idea of programmes, proposed by March and Simon in early 1958. As programmes tend to be developed usually for a specific and formal purpose in an organization, they consist of a series of activities with specific objectives. It is in the purposeful series of activities where the authors see the processual character of programmes (e.g. specific organizational routines and programmes such as Total Quality Management or Process Re-engineering).

In contrast to the exogenous view of process where factors in the external context are seen as influential determinants of the organizational processes themselves, the endogenous logic excludes from the analysis the effect of external contextual factors on the organizational processes. According to the categorization of Hernes and Weik (2007) the endogenous view can be found in studies that explore the organization as a process of relating heterogeneous elements (e.g. Whitehead, 1938). At the centre of theorizing in these studies lies the connectedness between various organizational elements such as artefacts, technology and their users. Furthermore, the endogenous view of process can be found also in studies which portray the organization as engaged in a process of recursive reproduction. This view can be found primarily in sociological works (e.g. Bourdieu, 1977, Giddens, 1979) interested in particular in the recursive relationship between structure and processes in an organization (Hernes and Weik, 2007). In contrast to the exogenous view, where the external and internal contexts of an organization play a key role in shaping the processes, in the endogenous view of process, an influential key factor is time. Only through time, can the stabilization between different entities occur and a recursive relationship be built between them.

3.4 Theory Development Strategies in Process Research Studies

Choosing the right research strategy (deductive, inductive, retroductive or abductive) is an essential element for the success of every research study as different research questions can be addressed only through the employment of a particular research strategy (Blaikie, 2010). Each one of the four strategies employs different ontological and epistemological assumptions, different styles and methodologies for addressing different research questions and building/testing theory from the collected data Moreover, the capacity of each one of the four strategies to explore 'what', 'why' and 'how' questions is also different (Blaikie, 2009). For example, questions seeking an exploration and description of a particular phenomenon cannot be achieved through the employment of deductive or retroductive research strategies, more appropriate for evaluation and prediction-based positivistic research. As Van de Ven (2008) reports, deductive approaches use theory to derive categories and relationships between events, which are statistically tested. In contrast, inductive strategy relies on detailed descriptions to answer the research question while researchers' previous experience and theoretical background are limited (Bryman and Bell, 2007; Blaikie, 2010). Most of the process research scholars tend to follow or manoeuvre between deductive and inductive theorizing strategies in the theory development process (Pettigrew et al., 2001).

In order to shed light on the key theory building approaches of process research, Pettigrew (2012) compares the applied research strategy of five leading process scholars - Henry Mintzberg, Robert Burgelman, Anne Langley, Andrew Van de Ven, and Kathy Eisenhardt. Starting with an exploration of the scholarship of the father of strategy process, Henry Mintzberg, Pettigrew profiles his approach of theorizing process data as inductive in nature where theory is built through the development of rich stories of the explored cases, a use of limited pre-conceptualization from the literature and through simple and clear methods. However, as Pettigrew unveils Mintzberg's explanation technique involves also deductive technique found primarily in the construction of patterns, typologies and mostly diagrams which are seen by the author as useful connection modes for explaining causality between patterns, factors and narratives. Similarly to Mintzberg, Pettigrew places Burgelman on the inductive side of the induction-deduction spectrum of theory building in process research. The research style of the first two authors is analogous in terms of their approach of theory building by relying on constant comparison in different time series and the deductive use of diagrams and figures in the explanation phase of their works. However, according to Pettigrew, of the two scholars, Burgelman is the one who is more vocal in his reliance on Glaser and Strauss (1967) grounded theory approach. Pettigrew himself points out a number of similarities between his own approach of process theorizing and that of Mintzberg and Burgelman. The third author whose work has been assessed by Pettigrew, the Canadian scholar – Anne Langley, is most known for her contribution of seven strategies for sensemaking of process data. The strategies proposed by Langley include both purely inductive and deductive approaches of sensemaking and building theory. However, instead of arguing in favour of the inductive approach as a follower of this approach herself, Langley demonstrates the challenges associated with both of the orientations (Pettigrew, 2012).

Pettigrew demonstrates the temporal character of process researchers' orientation by giving an example with Andrew Van de Ven who similarly to Burgelman used to apply the purely inductive grounded theorizing approach of Glaser and Strauss and later shifted towards the very deductive variance approach. Moreover, Van de Ven's departure from the inductive towards the deductive side of the research spectrum inspired the distinction between the proposed four types of process perspectives by the author, each of them informing a different logic of proceeding from empirical research to theoretical outcomes. However, a stronger reliance on the deductive element of the induction/deduction typology can also lead to a robust qualitative process research. According to Pettigrew, Kathy Eisenhardt is an exemplar of this practice due to her ability to build a harmonic relationship between inductive and deductive reasoning processes and to achieve transparency of research practice.

This interplay between deductive and inductive logic during the research process is referred to abductive reasoning (Van de Ven, 2008). Researchers, who apply abductive logic to generate theory, are constantly involved in a process of going back and forth between existing theoretical pre-conceptions and the collected rich qualitative process data (Eriksson and Kovalainen, 2008; Alvesson and Skoldberg, 2009). Abductive reasoning underlies this study's research process for reasons specified in the next section.

3.4.1 Rationale for Adopting Abductive Research Strategy

The research strategy that this study adopts is abductive as the main purpose of the study is to understand an unexplored phenomenon through the eyes of the social actors. In the case of this research, this is the development of sustainable banking capabilities during turbulent times. This research seeks to provide not only a description of a social phenomenon but also an in-depth understanding of the experience of the company's senior managers with the occurring development and change processes in the explored case study. In contrast to inductive, deductive and retroductive strategies which are adequate in answering only either 'what' questions or 'why' questions, the abductive strategy assists in exploring this study's 'what', 'how' and 'why' questions (Blaikie, 2010:89).

The lack of previous knowledge about the process through which specific organizational capabilities in conditions of instability and high level of institutional change are developed is another reason for the choice of abductive rather than deductive or retroductive reasoning. This represents the process of building and testing hypothetical models based on the existing literature (De Vaus, 2001, Bryman and Bell, 2007).

Deductive strategy, oriented mostly towards the generalizations or 'pattern explanations' of a phenomenon is less relevant in the case of this study whose aim is not to result in statistical generalization of findings but to enable generalization of theory (Bryman and Bell, 2007). Additionally, due to the author's previous professional background in the banking sector under exploration, it would be a matter of bias to apply inductive strategy and to claim the construction of theory without the author's advanced presuppositions (Patton, 1990; Blaikie, 2010).

Furthermore, the strength of the abductive strategy lies in the multiple layers of the strategy through which the analysis is conducted (Blaikie, 2010). In contrast to other research strategies where theory is grounded either at the beginning or the end of the analysis process, the employment of abductive strategy implies the idea of a "dialogue between data and theory mediated by the researcher" (Blaikie, 2010, p. 156) which is essential in process-oriented research designs. This gives an opportunity for the researcher to go further and closer to examine the development of the sustainable banking capabilities. According to Van de Ven (2008, p. 207), the abductive approach in designing a research strategy may include the researcher's observation of stability or change over a particular period of time in one or a few organizations, the categorization of data for explaining observations and emerging patterns, and corroborating them with a different sample or on the same sample at a different time. Following the suggestion by Van de Ven (2008), the adopted research design in this study explores the development of sustainable banking capabilities processually adopting a single case study methodology and comparing the case over three periods of time, diachronically.

Moreover, although the abductive research strategy provides appropriate logic for answering the study's specific research questions, it is not without limitations. The main danger of abductive reasoning is that of over 'contamination' of the generated data with the researcher's previous experience and knowledge (Blaikie, 2010). In order to minimize this particular limitation, the author of this study has remained reflexive in the process of generating process data (Mason, 2002; Creswell, 2003).

3.4.2 The Choice of a Qualitative Approach in Process Research

> *Whereas quantitative researchers typically look at a handful of "trees" and try to draw the implications for the forest, in qualitative research, we are trying to see the forest through the trees (Bansal and Corley, 2012, p.511).*

This study adopted a qualitative approach in order to provide deep understanding of the past and current experience as well as the perception of the bank senior managers about the process of developing sustainable banking capabilities (Silverman, 2006; Bryman and Bell, 2007). Qualitative research allows scholars to understand how meanings emerge through time in a given context as well as to discover variables rather than to test them (Corbin and Strauss, 2008; Bansal and Corley, 2012).

In contrast to the quantitative methods approach, which is often applied to achieve generalization of a particular population through testing, predetermined suppositions statistically, the qualitative approach allows the researcher to study a specific issue in greater depth and detail by allowing knowledge to emerge from the narratives of the participants (Patton, 1990, p.165).

The lack of empirical data on the study of sustainability banking capabilities motivated the adoption of an abductive, qualitative process approach in this research (Langley, 1999). In this regard, it would been irrelevant to use a quantitative approach and to adopt methods that test previous knowledge and seek generalization in the case of this research study (Gummesson, 2000; Mahoney and Goertz, 2006; Blaikie, 2010). Moreover, a qualitative approach to research is argued to have a particular strength in studies focused on the understanding of organizational processes due to its capacity to elucidate the temporal dynamics of an evolving phenomenon (Langley and Abdallah, 2011:202). According to Creswell (2004:21), a qualitative approach is the right research approach if the researcher makes knowledge claims based on the social constructivist perspective with the objective of theory development. A unique aspect of the qualitative research process is that the researcher usually starts with a general question and more specific research questions are identified in the process of collecting the data and analysing it (Maxwell, 1992; Cobin and Strauss, 2008).

In comparison with quantitative approaches to research, the qualitative approach is believed to allow more flexibility for the researcher when deciding on the types and the combination of research methods used for data gathering purposes (Bluhm et al., 2011). Qualitative strategies of inquiry include alternative choices such as narratives, ethnographies, phenomenology, grounded theory and case studies or a combination of some of them. In qualitative process research, the researcher is engaged with the collection of rich data and the development of emerging themes and constructs.

Qualitative methods such as interviews, archival documents as well as participant or non-participant observations as data sources have been defined as the “big three” in process research designs (Bizzi and Langley, 2012). Interviews and participant observations enable researchers to capture the complex interplay between the research context, content and the unfolding processes as well as to shed light on the temporal relationships between them (Vesa and Franck, 2013). Archive documents assist the researcher in developing a chronological order of the main events concerning the examined phenomenon and gaining familiarity with the research context, while interviews and participant observations allows for researcher's closer interaction with the internal life of the social actors involved in the phenomenon (Bizzi and Langley, 2012). The triangulation among these three methods allow for building a detailed case study of the studied phenomenon in a particular research context.

3.5 Case Study Approach

The adopted methodological approach in this research study was a case study approach. A case study is a preferable research approach for studies following a process research design as it allows a holistic and contextual exploration of the researched phenomenon (Gomm et al., 2000; Dubois and Gadde, 2002; Hoon, 2013). The popularity of the case study approach in qualitative research has resulted in a plethora of definitions, intended to describe what a case study is and what it is not. Among all the definitions, one of the most cited is Yin's (2002) view of a case study as an exploration of a contemporary important phenomenon within its real life context through various data sources. Research studies adopting a case study approach usually aim to meet one of the following research objectives –theory generation, theory testing or supporting theory through generating thick descriptions (Eisenhardt, 1989). This research study is aimed at theory generation.

Two types of case studies can be distinguished in the scholarship literature –case studies with an extensive research design and those with an intensive research design (Stoecker, 1991 cited in Eriksson and Kovalainen, 2008) also referred to as multiple case study design and a single case study design. The objective of the former is to test or to extend an existing theory or to build a new theory by investigating multiple case studies and cross-comparing them. The latter focuses on a single-case study. The key objective is to construct a rich narrative based on researchers' close familiarity with the external and internal context in which the specific research issues are examined. Both the single and the multiple case study design can employ multiple levels of analysis within and across cases (Eisenhardt, 1989).

The choice between adopting a single case study approach versus a multiple case study approach has been a long-lasting debate in the management field. According to Flether and Plakoyiannaki (2011) the main differences between these two types of case study designs appear in terms of their research aims (greater depth vs. greater breadth), research emphasis (thick descriptions vs. comparison), significance of context (high vs. less), epistemological approach (interpretivist vs. positivist), and theoretical function (development of an understanding vs. development of testable hypothesis). Moreover, differences exist in terms of the resources that the researcher needs to spend in conducting either one or the other case study design. As the research aim of a multiple case study design is to allow for a replication of the results in a different context, the researcher may be required to spend more financial and non-financial resources in the data collection process as well as the empirical construction of the cases. In a similar vein, Langley and Abdallah (2011) have distinguished between two templates of case study design which they entitled-- "The Eisenhardt Method", referring to the multiple case study design and "The Gioia Method", referring to the single case study design. As the title suggests, the first case study template originates from the well-known work of Kathleen Eisenhardt (1989;1991) and her students while the second template is derived by the work of Dennis Gioia and his co-authors (e.g. Gioia and Chittipeddi, 1991; Gioia and Thomas, 1996). Both of these case study approaches have become recognized and admired in the strategic management field. However, they tend to share different epistemological orientations as well as approaches of analysing the process data. In terms of epistemological stances, Eisenhardt's case study approach shares common features with the positivistic orientation where the focus is the development of testable hypotheses and theory (Langley and Abdallah, 2011). In order to achieve a verification of testable relationships, multiple case studies are used and a comparative, replication method applied.

In contrast to Eisenhardt's positivistic approach, Gioia's single case study design is based on interpretative postulations as the objective of the author's research is to provide an understanding of people's experience and perception of the researched phenomenon. A key difference with the method of analysing the case study is the generation of narrative stories that emerge from the rich case data and the development of conceptual constructs, built through the composition of first-order, second-order and overarching themes. Table 3.3 summarizes some of the main differences between these two case study methods.

Table 3.3: The Eisenhardt Method vs. The Gioia Method of Case Study Design

	The Eisenhardt Method	**The Gioia Method**
Epistemological roots	Post-positivism	Interpretivism
Inspirational basis	Yin (2009); Miles and Huberman (1994)	Glaser and Strauss (1967); Strauss and Corbin (1990)
Methodological objective	Design to maximize credible novelty	Design for revelation, richness and trustworthiness
Design of a case study research	Multiple case studies (4-10) distinctive on one criterion and similar on another.	Single case studies, selected based on the uniqueness of the case and its relevance to the explored research question.
Data analysis process	A cross-case comparison	Constructing a data structure, building first-order, second-order themes and overarching dimensions
Research outcome	Nomothetic theory	Process model/novel concept

Source: Compiled from Langley and Abdallah (2011, p. 205).

For an insightful, in-depth case of the explored event, activity, organizational processes or individuals to be built and theory to be developed, a variety of information sources over a particular time period needs to be collected through a direct researcher's engagement (Stake, 1995; 2005; Eisenhardt, 1989; Eisenhardt and Graebner, 2007)

3.5.1The Choice of a Single Case Study Design

This research study adopted an intensive single case study design. Although the choice of a single case study can never be statistically representative, it is almost always highly insightful (Buck, 2011).The single case study is believed to be a useful method when the explored research problem has been less studied and the objective is to build, rather than to test, an existing theory (Eisenhardt, 1989; 1991; Ghauri, 2004; Siggelkow, 2007). Single case studies are particularly suitable for research studies aiming to develop or contribute to the existing theory by examining especially salient contexts or building new theoretical constructs (Lervik, 2011). According to Orton (1997), the single case study approach is argued to be a better choice in particular for process-based research studies as it enhances the accuracy of the analysis. The researcher is able to get closer to theoretical constructs and to provide persuasive illustrations from the rich case data (Siggelkow, 2007:22).

3.5.2 Outlier Sampling as a Selection tool for the Royal Bank of Scotland

The selection of a case study is one of the most critical steps in the conduct of any research study (Ghauri, 2004; Buck, 2011; Salmi, 2011). A number of purposeful sampling techniques are usually employed in selecting the most credible case study for the purpose of the study. Some of the most widely used sampling strategies have been theory-based sampling, typical cases sampling, outlier sampling, homogenous sampling, convenience sampling, snowball sampling, key informant sampling, and criterion sampling (Fletcher and Plakoyiannaki, 2011).

The choice of the case study of the Royal Bank of Scotland examined in this research study was made through the employment of an outlier sampling (Patton, 2002) also defined as a critical case sampling (Yin, 1984).

In contrast to theoretical sampling where the choice of the case study selection is determined based on emerging conceptual constructs from a researcher's readings of the background literature, critical case sampling aims to concentrate on exploring an unusual case study that is rich in information, (Fletcher and Plakoyiannaki, 2011; Buck, 2011). Typical illustrations of an outlier sampling strategy are found in the works of Allison's (1971) study of the Cuban missile crisis, Weick's (1993) exploration of the Mann Gulch Disaster, as well as his study on the Bhopal disaster (Weick, 2010).

I followed the advice of Pettigrew (1990, p. 275) who suggests that researchers should always prioritize case studies, representing extreme situations and unusual cases over ordinary organizational cases as they are highly valuable and though they may encompass non-generalizable features, they draw insightful lessons. Moreover, extreme case studies are believed to allow better transparency in researchers' practices, mainly due to the greater need for more detailed explanation of the research journey in collecting and analysing the data (Eisenhardt, 1989; Pettigrew, 1990). This research study on one of the few banking organizations that survived a ‘near-death’ experience, is an example of an extraordinary company case that allowed interesting insights to be gained that other banking organization cases would not have been able to provide (Siggelkow, 2002; 2007).

Moreover, to date, besides the fact that a few studies suggest differences in the intensity of the market dynamism to impact the development process of a firm’s dynamic capabilities (Eisenhardt and Martin, 2000), there is a scarcity of empirical studies focusing on how companies develop dynamic capabilities and survive ‘near death’ conditions in times of extreme market complexity and institutional turbulence. In this regard, the Royal Bank of Scotland is an insightful case for the objectives of this study as it is the only bank to date, which has suffered the most pervasive impact of the 2008 financial crisis, requiring the biggest government bail-out in UK banking history. The importance of exploring the development process of organizational capabilities in at volatile institutional environment is also confirmed by the fact that it is a function of both organizational processes as well as the external institutional factors that influence them. The second reason is found in the richness of organizational changes that assist in tracing the main events and processes in which dynamic capabilities emerge.

Third, this particular case study suggests some of the potential processes that may emerge in the transformation into a more sustainable model of banking that can be of particular importance to managers and organizations interested in such development.

3.6 Summary

This chapter presented the process research design adopted for this study. The first part of the chapter examined in depth the differences between two ontological roots, the process vs. substance ontological perspectives, as well as the process vs. variance epistemological models. The rationale behind the applied process ontological and epistemological perspective was also explained. The chapter provided information also about the selection of an interpretivist approach over the employment of a positivistic, objectivist paradigm.

The second part of the chapter directed the readers' attention towards the specific nature of process methodology by highlighting some of the most widely applied process definitions in the management field. It also discussed the key aspects of the 'process' definition adopted in the study of the development process of sustainable banking capabilities, followed by a presentation of some of the existing process-based perspectives. Further, the chapter gave examples of the most common theory development strategies in process research studies and discussed the rationale for adopting an abductive research strategy. The chapter continued with an explanation of the reasons why a qualitative approach was selected over quantitative methodology and why a single case study approach was a preferable methodological approach. The chapter concluded with background information on the empirical context and the rationale behind the choice of the Royal Bank of Scotland as the focal organization under study. Details about the data collection and data analysis processes are presented in the next chapter.

CHAPTER FOUR: DATA COLLECTION AND DATA ANALYSIS

4.1. Introduction

This chapter sheds light on the data collection and data analysis stages in this research study. The first part of the chapter constitutes an in-depth discussion of the data collection process. First, the conversation focuses on the key challenges for gaining primary access in a company in crisis, how they have been overcome and how data access has been secured. The chapter continues with a detailed explanation of the primary and secondary data tools that were used for data generation. Moreover, the chapter provides an in-depth explanation of how process data collected from different heterogeneous primary and secondary sources was triangulated synchronically and diachronically to enhance internal and external validity as well as reduce the level of retrospective bias. Further, the temporal design of this research study is explored in depth. The second part of the chapter provides an overview of the processual data analysis and more specifically the research steps followed during the adopted 'hybrid strategy approach' of data analysis. The chapter concludes with a discussion of how research quality measures (reliability, construct validity, external validity and internal validity) and ethical considerations were achieved in this doctoral thesis.

4.2 Data Collection

The data collection stage in a process research study is one of the most exciting and interesting parts of any research study as it involves gaining insightful knowledge about the research and institutional contexts, as well as establishing personal contacts with the research respondents (Hinings, 1997). In comparison with other research studies, process research studies involve longer periods of data collection and data analysis. The data collection stage in process research generates a huge amount of data that at first instance can be difficult to manage (Pettigrew, 1990; Langley and Truax, 1994). In contrast to non-processual, longitudinal studies where the data collection and data analysis stages tend to remain relatively independent from one another, and the data analysis starts once all the data have been collected, in process research studies, such as this study, the data collection and data analysis progress in parallel to each other. The research effort of directing, matching and redirecting data collection, data analysis and the researcher's theoretical pre-conceptualizations for building theory from a case study approach has become known as 'systematic combining' (Dubois and Gadde, 2002). Dubois and Gadde (2002:554) coined the term, defining 'systematic combining' as the process where the applied theoretical framework, empirical framework and the case study evolve simultaneously. This happens as the researcher goes 'back' and 'forth' from one type of research activity to another enabling him/her to expand his understanding of both the empirical phenomenon and the 'technical literature' (Strauss and Corbin, 1990) while in a parallel mode generating new emerging theoretical constructs. Figure 4.1 illustrates the process of systematic combining in this study

Figure 4.1: The process of systematic combining between background theory, data collection, data analysis, and new theory generation

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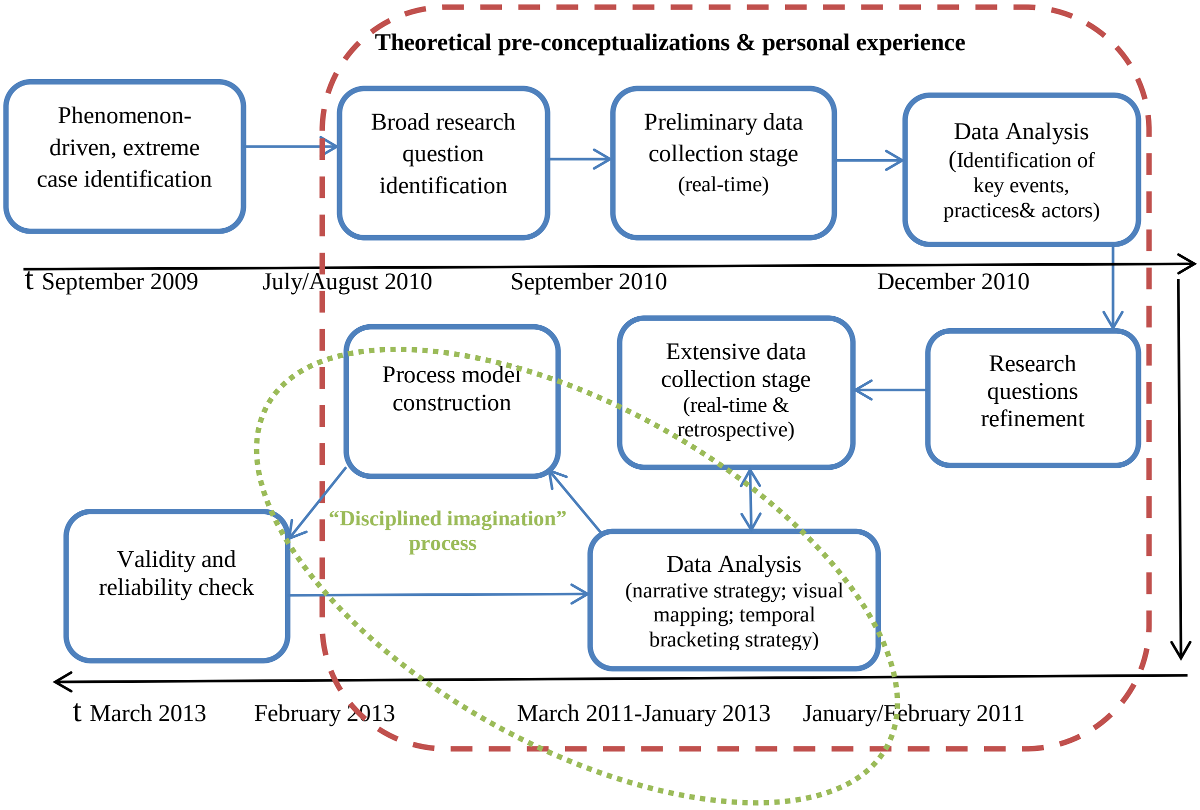


Source: Author

The above pictured process started with the recognition of the phenomenon and the research problem, and then moved towards the collection of preliminary real-time data which redirected the study's broader research query into more specific research questions. Overall, the second stage of the data collection was more intensive in its nature. The process of collecting real-time and retrospective, historic data were overlapping with the process of analysing the data (Eisenhardt, 1989). Every time the researcher of this study learnt new facts relevant to the research in focus, she was asking herself how the new data add to what she has already learnt about the phenomenon and how her theoretical pre-conceptualizations influence her understanding. This recursive cycling between data gathering, data analysis and the researcher's own theoretical pre-conceptualizations generated an intense process of 'disciplined imagination' through which theoretical constructs started to emerge (Weick, 1989). More details regarding the process of theory building and the analytical techniques applied in this research are presented later in this chapter. A discussion of how data access was secured is presented next.

4.2.1 Gaining Primary Access during Turbulent Times

Gaining and keeping primary data access during the specified research period is one of the most essential prerequisites for conducting a transparent, in-depth process research study. Securing access and selecting an appropriate sample of informants is usually a challenging process especially if the researcher does not have some sort of a personal contact in the business elite milieu (Welch et al., 2002; Harvey, 2010). It requires often a mix of the researcher's network capabilities, boldness and luck.

However, this is even more challenging if the researcher is trying to gain access into an organization in periods when it is fighting for its survival due to major institutional turmoil.

Some authors have shared contrary views. They have argued that the choice of case studies of companies suffering major organizational crisis is beneficial for data access and data collection as it makes managers more reflective, sharing their own perspectives and experiences with the explored issue, mainly due to the fact that the managers of these organizations usually need help. Such an example is the experience of Laurila (1997) who studied processually the case of Tampella, a Finnish company which had experienced severe organizational and performance problems. Moreover, secondary data gathering is also facilitated when studying organizations during turbulent times, mainly due to the great amount of published material during this period (Laurila, 1997).

My experience in gaining and keeping primary access into the Royal Bank of Scotland during a time of financial crisis does not reflect Laurila's (1997) experience with the case of the Finish Tampella. Perhaps, the biggest challenge that I encountered first during the period of data collection was to build initial trust and rapport with members of the organization, which could potentially result in gaining access to different organizational layers of the organization.

I gained primary access through a snowballing within-case sampling in September, 2010 (Patton, 2002). Two months prior to the first interview, serendipitously I met a senior manager representative during a social event, on the topic of sustainability, where I tried to engage in an informal conversation schedule a further research meeting and interview. Although at that point of time the informant agreed to further talk to me and to schedule an interview meeting, the first interview did not happen until the second time when I met the same person during a second occasion. The difficulty to build initially a research relationship with bank's senior managers can be simply explained by the internal organisational fear and high stakeholder pressure as well as the very strict and detailed non-disclosure agreements, which many senior managers were required to sign in the period of the financial crisis.

However, this second serendipitous event allowed me to start what evolved later into a two-year research relationship. A month later access to secondary archive materials was also confirmed. This allowed for a longitudinal examination of sustainability-banking capabilities in the context of changes in the banking institution from 2004 to 2012. At the time when access was gained, the period of investigation (2004-2012) was not defined. This happened later when nine familiarization interviews were conducted with senior managers, which allowed the researchers to establish a trustworthy relationship with the managers in the organizational setting (Bresman, 2013). This allowed for a further snowballing and internal data access in multiple parts of the organization (Miles and Huberman, 1994).

During the familiarization interviews, every time an interviewee referred to a colleague of his who had a key role in an activity or event related to the development of sustainability banking capability, I asked to be put in contact with this manager. Although two out of five managers would agree to refer us to other top managers, gaining access to senior level management in turbulent times was a recognized challenge. In contrast to small and medium sized enterprises (SMEs) and multinational companies (MNCs) in other European industries (e.g. Sweden), where gaining access to one senior manager ultimately means that you have access to the rest of the senior management level at the organization, the experience of securing access to senior managers in a UK banking institution surviving a turbulent financial crisis is a challenging process requiring researchers' personal energy and persuasion through a constant snowballing technique. Once the preliminary data were explored, the broader research question on the development and changes in an organization in a 'near-death' experience was revisited and narrowed down to a study on the development of sustainable banking capabilities during turbulent times.

4.2.2 Data Sources: Primary vs. Secondary Data Sources

The collection of data is believed to be a crucial stage in building a reliable foundation for process theorizing (Hinings, 1997, Soulsby and Clark, 2011). Therefore, a variety of real-time and retrospective primary and secondary data were collected between the time periods 2009-2012 (Pettigrew, 2012). Table 4.1 summarizes the collected data as well as how they were used in the analysis. The combination of these two types of data assisted in triangulating the data, minimizing any doubts about the accuracy of the representation of the process data (Soulsby and Clark, 2011) as well as stimulating the emergence of insightful theoretical outcomes (Klag and Langley, 2013). The primary data tools that were used for generating rich process data included interviews with senior managers and stakeholders of the organization as well as participant observations in the bank's headquarters and offices in the city of London. The secondary data sources comprised multiple sources of written internal, archival documentations, external reports and articles.

4.2.2.1 Primary Data Sources: In-depth Interviewing

The primary source of data was in-depth, semi-structured interviews with senior top managers who were involved in the organization's decision making and represented different departments of the organization. The choice of interviewing as a primary data collection tool is related to the exploratory nature of this study's research questions (Daniels and Cannice, 2004) and the adopted epistemological supposition that knowledge is highly dependent on contextual settings and is subject to the personal and professional experiences of the participants (Arksey and Knight, 1999).

Table 4.1: Description of collected data (2009-2012)[2]

Data type	Time dimension (real-time vs. retrospective)	Use in analysis
Primary data *Semi-structured interviews* 63 in-depth, semi-structured interviews and engagement with 27 current and former senior managers lasting between 30 min and 2 hours[3]. (see *Table 4.2* for further detail)	Real-time	Produce insight about the cognition strategies that informed the development of sustainable banking capabilities over time.
123 semi-structured interviews with external stakeholders (Occupy Wall Street protestors, investors and bank's shareholders, Summer 2011)	Real-time	Assist in identifying the external stakeholder understanding of sustainable banking practices and understanding the institutional context.
17 informal conversations with managers guest speakers and attendees from RBS group at the University of Edinburgh, Business School.	Real-time	Assist in identifying the internal stakeholder understanding of sustainable banking practices and further data access.
Detailed Transcripts of RBS Group Annual General Meeting(AGM) for the period 2007 to 2014	Real-time & Retrospective	Provide further examples to build a coherent narrative and provide evidence supporting researcher's observation for each of the outlined phases of capability development.
11 hours of discussions over the researcher's interpretation of the data for validity and reliability check	Real-time	
Participant observation	Real-time	Use for verification of the accuracy of researchers' interpretation and the managerial application of the model.
Observation in headquarters' offices (sporadic, 38 hours)	Real-time	
Informal discussions over lunch and breakfast with senior managers (6 hours)	Real-time	Assist in enriching the narrative stories and processes of capability development.

[2] The collection period of the data was between 2009 and 2012, however during this period historical data from 2004 to 2008 was collected.
[3] One of the interviews was conducted with two interviewees in tandem.

Observation of the RBS Group Sustainability Conference, December 2012 (24 hours in total).	Real-time & Retrospective	Insights into the key critical events in the development of visual map/timeline of events. Participant observation assisted in understanding the communication processes, and sensemaking of both external and internal stakeholders on sustainable banking capabilities.
Secondary data		
Newspaper articles *Financial Times* articles (2004-2012) related to RBS case (1544 pages of text) *Wall-Street Journal* (2004-2012) related to RBS case (764 pages of text) *The Scotsman* (2004-2012) related to RBS case (1295 pages of text)	Real-time	Insights into the influence of institutional level factors on the development of sustainability-banking capability process. Assist in building the case study.
External reports FSA report '*The failure of the Royal Bank of Scotland*', published online December 2011 (452 pages of text) FSA The Turner Review '*A regulatory Response to the Global Banking Crisis'* March, 2009 (126 pages of text)	Real-time	Insights into the influence of institutional level factors on the development of sustainability-banking capability process.
Company documents and reports 130 RBS Press releases (2004-2012) 6 Annual General Meeting statements to shareholders (2007-2012) 9 Group Annual Reports 2004-2012 (3117 pages of text) 9 CSR & Sustainability Reports 2004-2012 (293 pages of text)	Real-time & Retrospective	Assist in determining key events related to sustainability-banking capability in the organization. Extremely useful in visual mapping and temporal bracketing strategies of the analysis.
Documentary films *RBS: Inside The Bank That Ran Out of Money* (BBC Documentary 2011) 58:58 min video	Real-time	Insights into the causes and mistakes that led to RBS 'near-death' experience.
359 RBS Group visual materials (advertisements, internal posters (2004-2012)	Real-time & Retrospective	Assist in assessing the changes in the perception and communication of RBS group before and after the financial crisis and constructing case narrative.

Source: Author

The total number of engagements with the interviewees and respondents was 63 while the total number of interviewees was 27 (See Table 4.2). On average, all of the senior managers were interviewed at least twice between 2010 and 2012. The choice of interviewees was informed by previous studies indicating that dynamic capabilities reside in a firm's top-management team, as top managers are typically the decision makers who influence the internal organizational structures, processes and systems as well as set business tendencies and dictate business practices (Teece, 2007, p. 1346). Senior managers are considered valuable research informants because of their knowledge, experience, talent and privileges (Welch et al., 2002).

I conducted the in-depth elite interviews through guided conversations enabled the researcher to gain more detailed information about the activities or ordinary capabilities of the decision makers. This allowed me to catch any on-going changes in the development process as well as the impact of occurring external or internal, institutional incidents on managerial practices. From the total number of interviewees, five were former employees of the company while the rest were current employees, the majority with an average experience of seven years in the company who had also worked in different levels and divisions in the organization. All interviews lasted between 30 minutes and two hours on average and the majority of them were audio recorded except nine due to confidentiality concerns. However, I transcribed these interviews via the detailed notes that were taken immediately after each of the interviews. All interviews were conducted in person and via telephone in the respondents' business language which was English. This helped me to limit my bias in the interpretation of the data due to incorrect translation. Similarly to Monin, Noorderhaven, Vaara and Kroon (2013), a story-telling approach (Czarniawska, 2004) was adopted in the interview process.

Moreover, my interview approach followed the 'emotionalist' typology proposed by Silverman (2001), suitable for exploring people's perception and experience with particular organization changes combined with a 'constructionist' approach of interviewing, appropriate for responding to 'how' questions.

Table 4.2: Summary of informants, number of interviews, interview mode and duration

Senior manager (SM)	Current/former employee	Number of engagements/ interviews	Total duration of interviews	Interviewing modes
SM1	Current	8	4h 45min	Off-site, Site, Phone
SM2	Current	2	1h 45 min	Site, Phone
SM3	Current	2	1h 30 min	Phone
SM4	Current	2	1h 10min	Site
SM5	Former	2	55 min	Skype
SM6	Current	2	1h 20 min	Off-site, Phone
SM7	Current	2	50 min	Site
SM8	Current	3	2h 10 min	Site, Phone
SM9	Current	2	1h 15 min	Site
SM10	Current	2	2h 30 min	Site
SM11	Current	2	1h 10min	Site, Phone
SM12	Former	2	45 min	Phone, Skype
SM13	Current	2	1h 20 min	Site
SM14	Current	3	2h 23 min	Off-site, Phone
SM15	Current	2	57 min	Phone
SM16	Current	2	1h 8 min	Off-site, Skype
SM17	Former	2	48 min	Off-site, Phone
SM18	Former	2	40 min	Skype, Phone
SM19	Current	2	58 min	Site, Off-site
SM20	Current	2	40 min	Off-site
SM21	Current	2	52 min	Off-site, Phone
SM22	Current	2	1h 10 min	Site, Phone
SM23	Current	2	1h 3 min	Site, Phone
SM24	Current	2	53 min	Phone
SM25	Former	2	40 min	Phone
SM 26	Current	2	1h 7 min	Site, Phone
SM 27	Current	3	2h 12 min	Site, Off-site, Phone
Total: 27=22 Current + 5 Former		**63**	**31h 36 min**	**Site, Off-site, Phone Skype**

Source: Author

The location where an interview takes place is likely to influence the degree of openness and the type of information different informants are likely to disclose (Harvey, 2010). Research practice has shown evidence that interviews which take place within the workplace are likely to generate less information or even lead to misleading information due to the fear of the informants that their subordinates expect them to be engaged with other responsibilities (Harvey, 2010). However, the interview location in this research study did not affect the data collection process or the validity of the data, namely because of the seniority of the interview respondents. The interview locations varied. Most of the interviews took place in the bank's headquarters in Gogaburn, Edinburgh, and the organization's offices in St Andrew's Square, Edinburgh or the bank's premises in the city of London. Some of them were conducted also at my university, others in neural venues such as coffee shops in the university central area. Skype video calls and phone calls were preferred modes of interviewing in cases where it was not feasible for the researcher and an interviewee to meet in person due to a busy working schedule or long travel distance.

To conduct a successful interview, firstly it was important to build trust and rapport with the sampled informants (Healey and Rawlinson, 1993; Arksey and Knight, 1999). First, to put the interviewees at ease, business cards were exchanged. The researcher expressed her gratitude to meet the interviewees and assured them that all the information they shared would be treated confidentially (Wilkinson and Young, 2004). Then, the purpose of the interview was once again explained and each interviewee was asked to read and sign a consent form prior to the interview.

The interview protocol in the first stage of interviewing consisted of broader questions aimed to produce knowledge about the managers' experience and personal stories related to the changes and dynamics in the development of sustainability banking capabilities process (Davies, 2001). These questions aimed to make the interviewee more relaxed and set the tone of the conversation. Some of the interview questions included: "What is your role now and how did you come to be where you are?", and "Did this role change after 2008 and in what aspects? What do you think was different? ". When responding to these broader questions, all of the interviewees emphasized the changing orientation of the bank's strategy towards the creation of sustainability banking capabilities and the cognitive as well as practical changes associated with it.

In order to gain more insights into each of the stories that the managers unveiled, I asked a number of probing questions such as "How did you go about implementing and developing this new framework you are talking about? What were the pressures? ", "Why do you think this did not happen before 2008 for example?", "What kind of new practices, routines, day-to-day activities did you use that you needed to put in place internally and externally? How did you accomplish these changes? ", "How were these practices stimulated?", "Who/what came up with this idea?"," Did everyone agree with your idea?", and "How did you engage in the integration process"?. These questions allowed the researchers to make sense of the context and the changes that the organization members had already made, were making and were planning to make. Furthermore, in cases where the interviewees" responses happened to be either too vague or too short, a number of probes such as "…Well, this sounds very interesting, could you elaborate a bit?", were used. This gave more depth to the collected data (Rubin and Rubin, 1995). In addition, to stimulate interviewees to respond in a more detailed manner encouraging phrases such as "Interesting", and "Really?" (Harvey, 2010) were used as well.

Many of these questions unveiled the importance of a number of learning processes on the manager's individual cognitive level, process level as well as the overall organizational level in the bank. Once the researchers noticed the repeating occurrence of a particular theme, the interviewees were asked more specific questions such as "Why do you believe the investment and CSR team were communicating so rarely before 2008? What made them change exactly?", or "You mentioned in the last interview that the level of experimentation was much higher in 2010, what made this happen?". Many of the more specific questions were posed in the second or third follow-up interviews with the bank managers.

In addition to the senior management interviews, I conducted a number of short, structured interviews with external and internal stakeholders such as bank investors, shareholders, Occupy Edinburgh protestors as well as the company's middle managers who happened to be guest speakers in a number of events organized by the University of Edinburgh, Business School. Through the entire interview process, I tried also to maintain as recommended by Dexter (1956; 1970) an attitude of 'sympathetic neutrality' or the balance between the researcher's empathy with the interviewee's opinion and the role of an academic. Furthermore, during the entire interview process, I tried to remain generally flexible in her approach to interviewing. Although an interview guide was present during all interviews, the semi-structured nature of each interview allowed modifications in the questions that were asked, while the general meaning of each question remained the same.

4.2.2.2 Primary Data Sources: Participant Observation

The primary data sources were enriched further by the researcher's participant observation in the RBS headquarters between March and December, 2012 within the Sustainability department in particular. The total time of participant observations was 62 hours in total, of which 38 hours were spent sporadically during the nine months period in Gogaburn, RBS headquarters in Edinburgh. However, due to the lack of actual, material boundaries between the different divisions of the organization, as a researcher, I was able to observe interactions and conversations of managers in the Sustainability department as well as the nearest two departments – Group Charitable Programmes and Group Communications. I was presented in the organization as a doctorate scholar exploring the evolution of sustainability banking capabilities. Furthermore, I was given a desk space and a computer with a full access to the company's intranet where she could follow online discussion platforms where managers and employees share opinions and exchange ideas as well as criticisms towards on-going events or the implementation of particular practices in the present as well as in the past.

During the time spent in the organization, I had the opportunity to observe as well as to interact with managers, to have conversations about their daily routines and to ask details about emerging projects related to the sustainability banking agenda. Insightful stories educing the past were often revealed during informal lunch breaks. I was taking detailed notes of what was observed in real-time. The close interaction with the bank's senior managers within the Sustainability department provided me the opportunity to be invited to internal events such as the RBS Group Sustainability Conference. At the conference, which took place in December 2012, key sustainability topics were debated among the group's executives, senior managers as well as representatives of external stakeholder groups (NGOs, investors) as well as internal stakeholder groups (managers from different parts of the business).

Furthermore, similarly to Nag, Corley and Gioia (2007), in order to maintain a high level of validity and reliability of the data, a "24-hour rule" was followed. All the interviews were transcribed within twenty-four hours after being conducted. Intensive field notes were taken during each of the visits to the company as well as the group sustainability conference, which were also electronically taped and stored.

4.2.2.3 Secondary Data Sources: Archival Data

The interview data were supplemented by rich internal archival data essential for a more in-depth understanding of the key events and the time periods essential for the accurate construction of a case study (Mills and Mills, 2011). The archival data facilitated the validation of the majority of retrospective accounts that the interviewees provided. The data consisted of 130 RBS press releases (2004-2012), six annual general protocols from shareholder meetings (2007-2012), nine annual group reports as well as nine CSR & Sustainability Reports (2004-2012) and three variant copies of the company's code of conduct. It is believed that organizational changes are usually disclosed in annual reports of the year when they have happened (Klarner and Raisch, 2013). Similarly, internal corporate newsletters can suggest the thinking and behaviour of people through periods of time (Mills and Mills, 2011). External documents were also used such as two Financial Service Authority (FSA) reports, one BBC documentary film along with newspaper articles from two international newspapers - the Financial Times, and the Wall Street Journal as well as one local newspaper, The Scotsman, which were collected using the Factiva media database.

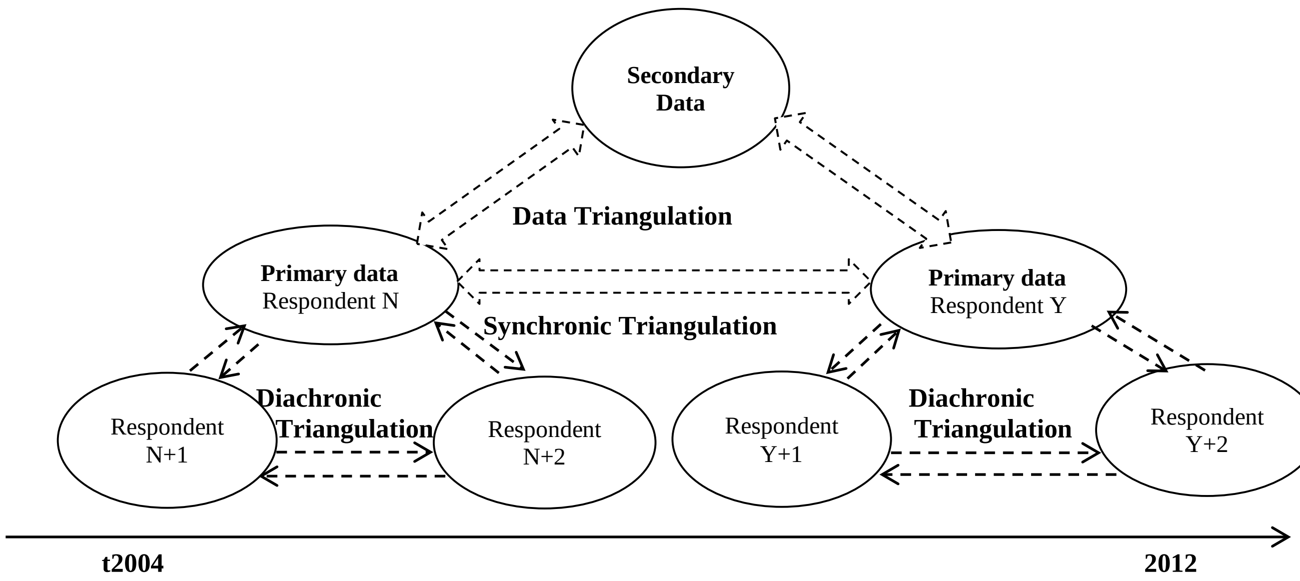
In addition, visual materials were collected as supportive data. They were particularly useful in tracing back the changes in the representation of the organizational identity through time as well as the nature of business activities. Discussing the beneficial character of visual data, being a direct representation of the reality, Eriksson and Kovalainen remind us (2008, p.91) of the old saying, "One photo is worth a thousand words".

4.2.2.4 Data Triangulation Process

Issues concerning the enhancement of internal validity and the reduction of retrospective bias in process research studies are often addressed through the process of data triangulation. The term 'triangulation' has been defined as the process of combining methodologies while studying the same phenomenon (Denzin, 1978, p.291) and it can be traced back to the study of Cambell and Fiske (1959) who recognize the use of multiple methods as a validity assurance check (Ghauri, 2004). The use of multiple methods allows the researcher to compensate for the weaknesses of one type of method over the strengths of another method (Pauwels and Matthyssens, 2004). Although one of the most frequently used triangulation methods is achieved through the combination of primary and secondary data, the study's internal research validity can be enhanced also by either interviewing different respondents on the same topic or by conducting a number of interviews with the same respondent on the same topic. The first is known as synchronic primary data source triangulation, while the latter refers to diachronic primary data source triangulation (Pauwels and Matthyssens, 2004). In this study, all three types of data triangulation were applied during the data collection stage. This allowed not only a greater internal validity to be achieved but also a rigorous case study to be constructed. Figure 4.2 describes the logic of triangulation applied in this research study.

Triangulating secondary and primary data in this study assisted in gaining profound knowledge into the company's case and constructing a detailed historical narrative, highlighting key events and phases, essential for the process of developing sustainability banking capabilities. Moreover, to avoid the retrospective bias associated with the collection of secondary data and primary interview data based on past experiences and managerial practices, the collected data were triangulated by interviewing senior managers, representing the company's key departments on their experiences of the changes and dynamics within the development of the sustainability-banking capability process. Each of the informants was interviewed at least twice. The first interview with any respondent usually tended to have a familiarization character during which key events, practices and perceptions were identified. The data were then further verified through available secondary data mainly archival sources and reports as well as through further interviews with members of the senior management community in the bank. After approximately four to six months, a second and in some case third interview was conducted with the same interviewee. These follow-up interviews allowed the verification of the logical connections between emerging events and practices constituting a chain of evidence. Furthermore, some of the follow up interviews further enriched the research data. Several interviewees happened to recall and share further insightful stories, which contributed to the construction of the case study.

Figure 4.2: Triangulation Cycle



Source: Author

4.2.3 The Centrality of Time and Temporality

Time and temporality are essential considerations in every process research because of the significant amount of time that a researcher needs to devote to collecting and analysing the research data (Pettigrew, 1990; 1997; Bidart et al., 2012) and because of the potential impact that differences between the researcher's and an interviewee's temporal orientations may have on the specific process research outcomes as well as the overall validity of the research study (Melin, 1992; Tuttle, 1997). In this regard, Hinings (1997) emphasizes that dealing with time both theoretically and methodologically is undoubtedly one of the greatest challenges for every researcher interested in conducting a process study.

4.2.3.1 The Centrality of Time

The researcher's choice of when to start and when to end the data collection process is sensitive to time and needs a careful consideration from every researcher engaged in process research (Blazejewski, 2011). A study's specific temporal design frames the explored case study within a particular context where the unfolding external and internal events and practices lead to the development of specific processes which on the other hand shape and produce specific outcomes (Pettigrew, 1990; Pettigrew, 2012). As temporal and contextual differences are likely to result in outcomes variation, during the stage of data collection and data analysis, I tried to remain as reflexive as possible to the potential influences that my personal choice of the period of time and context of study may have on the research outcomes of my research, one of them being the development of the sustainability-banking capability process.

Process research studies tend to have different temporal designs, which depend on the objectives and the research questions that the study addresses (Tuttle, 1997). For example, the temporal design of a process research can be as short as three to four months such as the ethnographic study of Lok and de Rond (2013) on the micro-processes through which highly institutionalized practices are maintained, exploring the case of Cambridge University Boat Club's 2007 season preparations. However, a process research study may have a much longer time frame such as Bingham and Kahl's (2013) thirty-year study on the process of new schema emergence based on retrospective, archival data. In this research study, the time interval during which the development of sustainable banking capabilities is explored is between 2004 and 2012, in total eight years of study covering three key time periods which came out inductively from the process data -- the period before the 2008 financial crisis, the period during the financial crisis and the period after the financial crisis. The starting point in this study's research time frame was chosen as the month of January, 2004, when the Royal Bank of Scotland launched its first CSR (Corporate Social Responsibility) team as part of the firm's Communication and Marketing division. This event was recognized as the company's first action towards the development of sustainability banking capabilities. Both real-time and retrospective data were combined in order to provide a greater exploratory depth and understanding of the evolutionary processes related to the development of sustainability banking capabilities.
Figure 4.3 below describes the temporal design of this research study. The research time spent for gathering the research data included the time period between the years 2009 and 2012. During this time frame both real-time secondary and primary data

sources were collected. The real-time data collection was happening relatively simultaneously to emerging and on-going events and processes in the explored case company and institutional environment (Blazejewski, 2011). However, every time an event was recognized as important for the explored case, the research process embarked on a retrospective loop, analysing the explored case in ex post time and gathering past secondary data.

Figure 4.3: This research study's temporal design

Source: Author

4.2.3.2 The Centrality of Temporality

Temporal orientation is a socially constructed phenomenon, specific for every researcher's sets of preferences, values, and beliefs about time (Tuttle, 1997, p. 351). A process researcher's self-awareness of his/her own temporal orientation is critical in conducting process research. A difference between the researcher's perception of time and that of the informants may lead to researchers' misinterpretations of the importance of specific processes and activities and their contextualization in the past, present or future. Moreover, the higher the level of inconsistency between the temporal orientations of a process researcher and his/her informants, the greater the impact on the process research results (Tuttle, 1997). Therefore, in order to minimize the potential, negative impact on the process research results, during the entire process of data gathering and data analysis, I remained conscious about the impact that differences between my interviewees' temporal orientation as well as my own temporal orientation may exercise on the process of building a chain of evidence and the emergence of new theoretical constructs from the data. In order to provide a greater insight into the effect of an individual's specific temporal perspectives on the nature of processual research, Tuttle (1997) classifies three temporal orientation types – *objective temporal orientation, psychological temporal orientation, and physiological temporal orientation*. Each one of these orientations of time comprises specific socially constructed awareness of time, pattern-intensity of activities and responsiveness to the environment.

The objective temporal orientation is typically associated with the specific planning and scheduling attitudes of individuals. Differences between how the organization's informants and researchers plan and meet specific deadlines are likely to impact the research process. In order to avoid the negative impact of different objective temporal orientations, at the beginning of the data collection process after a few preliminary interviews, I provided my key informants with a preliminary list of all the company's secondary documents, which I believed were necessary for exploring the research topic. This included also preliminary research deadlines for scheduling interviews, gathering secondary data and analysing the research data. However, I tried to remain as flexible as my research time frame allowed me in order to be able to grasp any opportunities for participant observation and interviewing which emerged through in-case snowballing. Moreover, due to the seniority of the research informants the majority of interview meetings were scheduled through the senior managers' personal assistants. This facilitated the planning and scheduling of the interview meetings with the interviewees.

Furthermore, individual temporal orientation is also believed to comprise differences in the pace with which individuals tend to handle tasks as well as the number of tasks they can handle simultaneously. The second type of Tuttle's temporal orientation - psychological temporal orientation - relates to peoples' perception of time as a resource and the importance of present, future and past on their day-to-day activities. Among all respondents in this study, time was perceived as an extremely valuable resource. With the exception of only a few interviews, the majority of interviews started and ended within a previously agreed timeframe. The prompt timetable of interviewing benefited the research process as it allowed for a disciplined management of the data gathering process.

Physiological temporal orientation is Tuttle's (1997) third type of temporal orientation which refers to people's natural rhythm and time cycle of performing as well as the effect of modifying habitual behaviour such as sleeping, learning, remembering, waking up and other natural processes. In the case of this research study, differences in the physiological temporal orientations of the researcher and the interviewees were not apparent and did not affect the conduct of the study in any of the research stages. The next section describes the process through which the research data were analysed.

4.3 Processual Data Analysis

Data analysis is one of the most challenging tasks in process research studies involving the exploration of rich longitudinal data often at a number of levels, contexts and units of analysis (Pettigrew, 1992; 1997; Hinings, 1997; Dawson, 1997; Langley 1999). During this period of research endeavours, as Dawson (1997:402; 403) suggests a researcher may question their sanity in embarking on such a study in the first place. Although I did not question my choice in embarking on this research project, one should admit the high level of personal commitment and energy that the data analysis part required.

The analytical approach of this study was abductive and iterative involving interplay between literature-informed pre-conceptualization, and a detailed description of emerging themes, phases and model constructs (Dawson, 1997). The abundant qualitative data were analysed by adopting a *'hybrid strategy approach'* including the narrative strategy, visual mapping strategy and temporal bracketing strategy suggested by Langley (1999) for sensemaking the process data. These three strategies were used complementarily allowing the researcher to maintain high level of accuracy, moderate levels of simplicity and generality of the data quality in the theory building process. The first two strategies (narrative and visual mapping approach) were extremely useful in representing the process data in a systematic and organized form as well as identifying key theoretical constructs and phases, while the third one was a useful replication technique (Langley, 1999: 707).

Table 4.3: Research steps in the study processual data analysis applied in this study

Data Analysis Stages	Analysis Stage Description
Stage 1: Composing a preliminary narrative storyline/case biography	Reading line by line and triangulating across different types of data to construct detailed case description through narrative anecdotes and sub-themes, mapping out key events
Stage 2: Visual mapping strategy	Constructing a detailed timeline of critical events and turning points in the company's case and context
Stage 3: Temporal bracketing strategy	Cross-comparing time-series data and identifying different patterns. Distinguishing between three key phases of capability development
Stage 1.1: Revising the storyline & developing a coherent story narrative	Moving from description towards explanation
Stage 4: Thematic in-depth coding strategy	Zooming closely into each of the identified phases on each of the observed levels of analysis. Verifying through further reading line-by-line emerging sub-themes. Discerning links between sub-themes aggregating to second-order themes on a more abstract theoretical level, leading to three theoretical constructs, key ingredients of the developed process model.
Stage 5: Empirically grounded process model construction	

Source: Author

In organizing our preliminary findings, I relied also on several pre-conceptions (Glaser and Strauss, 1967), such as Scott's (2001) pillars of institutional change (cognitive, normative and regulatory) and the micro-foundations of dynamic capabilities suggested by Foss and Felin (2012), which include the learning levels of individual cognition, processes and organization. In building on these pre-conceptions as initial codes, I sought to develop theory on how a multilevel process leads to intermediate steps (e.g., learning across different levels) and a focal outcome (e.g., sustainability-banking capabilities) over time. The data analysis was conducted in several steps. Table 4.3 summarizes the complementary research steps in the undertaken process analysis as discussed later in this chapter.

4.3.1 Data Analysis Stage 1: Construction of Narrative Historical Biography

Data analysis started as soon as some of the preliminary background, secondary and primary, interview data were collected. Based on the collected information, the key company's issues and events were mapped out and the research inquiry narrowed down to the question of the development of sustainability-banking capability, a driving force of the firm's survival and organizational change during the times of financial crisis. Furthermore, after additional data were gathered, detailed 'historical biographies' (Melin, 1992), e.g., longitudinally historical narratives (Burgelman, 2011) were constructed. Through this process typology, I tried to capture the whole overall development of sustainability capabilities in the organization from its start to the present time. This type of narrative analysis of the data is considered to be especially beneficial in capturing both the synchronic and the diachronic characteristics of the capability building process (Narayanan et al., 2009: S28). Moreover, it has been argued that the employment of a narrative strategy assists in allowing better theoretical constructs to emerge due to the retained close connection with the research context, something which has been criticized in Eisenhardt's (1989) theory-building approach from multiple case studies (Pentland, 1999).

Therefore, this approach was extremely valuable in defining the focal point and time of departure in this research study. The company's longitudinal historical narrative was reported through this study's single case study design. The construction of the case study was an effective way of understanding the links between macro-environmental factors in the explored context and the company's internal decision making and strategic processes (Ghauri, 2004). The starting point in our timeline was the year of 2004 when the company launched a small corporate responsibility team of three people within the Public Policy department which existed at the time.

During this stage of analysis interesting narrative anecdotes were collected which gave particular valuable insights about the explored phenomenon and the dynamics of context in which it was studied. Both the primary and the secondary materials that were collected provided detailed descriptions of the company's sustainable practices, their changes and management until 2012. These materials were analysed by reading line by line as well as between the lines.

For data management facilitation, I coded each of the different types of data in a coding book through a data reference abbreviation. For example, data coming from press releases, sustainability reports, annual reports, research observations, and internal documents (e.g. group sustainability updates) was transcribed as follows PR, SR, AR, O, ID. The data from the interviews with the senior managers were transcribed and numbered as SM1, SM2, SM3, SM4 etc. As it was not important from which newspapers the given information is coming, all newspaper information was coded as N. The close exploration into the narrative data that each of the data sources provided resulted in the construction of detailed narrative vignettes, each of them an essential ingredient of the development of a case study, embedded in the context of turbulent times in the banking sector. The triangulation of the collected various sources of data led to the identification of key events and turning points in the development of sustainability-banking capability, leading to the second stage of the processual analysis, discussed next. Table 4.4 exemplifies the adopted data management approach in this stage of processual analysis.

Table 4.4 An excerpt of process data anecdotes and emerging sub-themes

Data Ref. Code	Date/Year	Reference in time	Narrative anecdotes and sub-themes
ID ID	04/ 2012 04/ 2012	04/2012	*Transformation of risk management processes* By April 2012, the bank changed its approach towards risk management and incorporated sustainability principles, some of those included lending only as much as it is raised from deposits, and profit earned by serving customers as the central bank stakeholders. “This year RBS Group has taken a crucial step towards embedding responsible business practices through the company”. “You can see these changes in every single level of the organization through internal and external practices, the most important is that it is in the mentality as well.”
SM8 ID	03/2012 2011	04/ 2012 03/2012	*Dedication towards continuous learning* “The RBS is committed to continually improving its understanding and management of sustainability issues” “There is always what to learn and improve in yourself and in the bank. We do not want to stay blind to our mistakes, this is a big danger. We need to be fast learners but also to be reflexive to the dangers that our intuition can lead us to.
ID	2011	2009-2011	*A central advisory ESE (Environmental, Social and Ethical) risk team was introduced.* In the middle of 2009, the bank formed a number of risk managing policies and a team which was responsible for governing the company’s commitment, capacity and track record in managing environment, social and ethical risks. The developed policy focused also on four potentially riskier sectors – oil and gas, mining,

ID	2012	2010-2011	and metals, defence and forestry, which were previously not a concern for the organization.
ID SM4	2012 11/2011	2011-2012	*New management procedures and cross-departmental training*. A number of training programmes and initiatives were introduced across relevant departments in order to enhance the management of social, economic and environmental risks. “Our employees are a diverse and talented group which we support and encourage through internal networks and training.”
ID2012	04/2012	2011-2012	*Establishment of a series of meetings between the bank’s key stakeholder groups and the Group Sustainability Committee* . In November 2011, the group started the first meetings with stakeholder groups which did not exist before. In the past, the stakeholder meetings of the group were limited to those with the company’s shareholders. “The meeting reflected our fair banking sustainability theme. It was with a number of high profile consumer affairs organizations.” The second meeting was held in March 2012 on the theme of citizenship and environment.
SM10	04/2012	2011-2012	*Advance planning and scheduling of meetings with stakeholder groups.* After November 2011, the company’s sessions on other themes with the bank’s stakeholder groups started to be planned for the year ahead and became part of the overall administrative structure.
PR PR	07/2004 08/2004	2008-2012	*Changes in the group’s stakeholder management approach* “After the financial crisis, we realized something very important – we cannot simply ignore certain stakeholder groups, we need to respond to the calls and sometimes just listen. We had a massive change in our stakeholder management approach, a massive change.”
PR	08/2005	2004-2005	*Focus on volunteering initiatives* In 2004, a number of corporate responsibility initiatives took place mainly through RBS’ partnership with the Prince’s trust, a partnership of £11 million at the time. The bank’s role in this partnership was the development of leadership skills in deprived communities mainly through senior bankers, acting as role models. Another external, responsible practice was the involvement of the bank’s senior executives in inspiring Scottish young people with no education about the importance of higher education.
SM7	02/2012	2004-2007	*The first CR (Corporate Responsibility) report for the year of 2004 was issued* .Approximately £46 million was invested in local communities.

PR ID SM20	03/2012 04/2012 05/2012	2010-2012 2010-2012	*CSR-charity giving and donations* "If you look at a report from 2004 or 2005 and one today, you will probably see that we were financially supporting a lot of charities and organizations. Was this what people thought of sustainability? …Certainly, it was not a real integrated practice maybe until 2008 like you can see in the organization now". *"A good bank goes where customers are."* The RBS started to focus more on international customers rather than only domestic customers. The RBS Foundation in India introduced a new scheme which aimed to help the rural Indian community in the Leh region to maintain agricultural practices in the face of the dangers of global warming. *Structural changes for promoting engagement with company's employees.* After the financial crisis, the internal communication and interaction with employees were changed to internal corporate forums where employees can leave comments and the executive managers directly respond to them. "The story after 2008 has been well documented. You can imagine life as an employee. We know the story is being told day in and day out, so awareness with the environment in which we are working and how it has been reported externally has been raised significantly. Senior managers mention that employees are very important and they have started to rebuild the idea that employees are important for the success of RBS. I think from an employee's point of view, the managers have been incredibly open. There is a lot of communication going on –sometimes we get weekly or daily reports that provide more background information".

Source: Author

4.3.2 Data Analysis Stage 2: Visual Mapping Strategy

Each of the narrative anecdotes expressed a certain sequence and time, revealing different patterns of organizational activities and processes shifting through time (Pentland 1999). The second part of the analysis involved the construction of a detailed timeline of events through a visual mapping strategy (Langley, 1999). The visual representation of the collected data is an extremely useful tool for making sense of large data sets as they illustrate the course through which key events and practices in the organizational life have evolved in time (Langley, 1999). Moreover, visual maps are helpful for displaying events which occur in parallel to each other (Van de Ven, 2007).

In order to ensure a high accuracy of the presented stories and the key events in the case study, only those events that occurred in the majority of the interviews and/or were present also in the secondary materials were recorded into the constructed timeline. The data were reduced to 21 critical events in total, which were placed chronologically on a detailed timeline. This facilitated significantly the analysis of the very rich but messy process data (Sminia, 2009). During the process of mapping the key organizational events that happened in the researched organization, a number of regulatory, normative and cognitive changes started to become evident from the data and unfold through the analysis. The relationship between the emerging institutional context factors and the changes implied in the development of sustainable banking capabilities was explored in greater detail later in the processual analysis. Similarly to Langley and Truax (1994), any external event, whose occurrence was outside the bank's control was illustrated through a rectangular form. Figure 4.4 presents a visual map excerpt of this study, outlining the key events in the process of capability development.

The graphical representation of the main turning points in the company's case of sustainable capability development was an intermediary step between the raw data and more abstract theoretical conceptualization (Langley, 1999; Lok and de Rond, 2013). The chronological ordering of the key events during the process of sustainable banking capabilities was presented to those managers who had been in the company during the entire time interval of empirical observation. This helped in validating the veracity of the research observations.

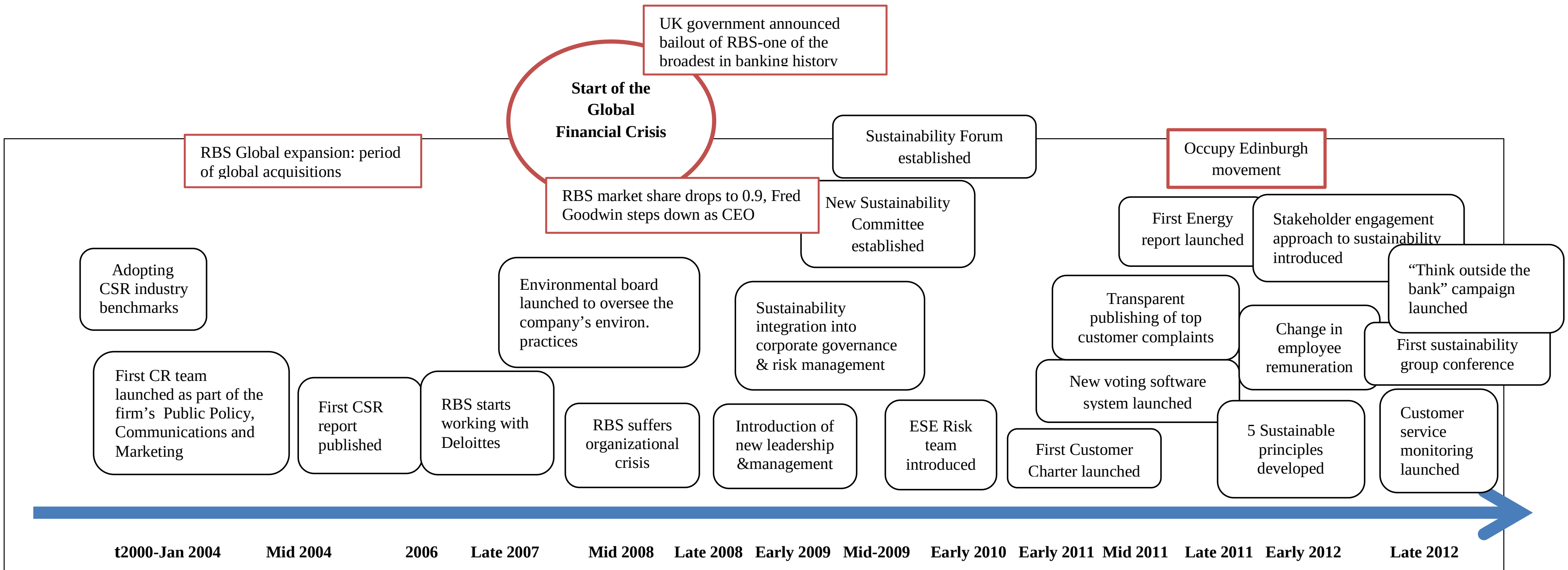


Figure 4.4: Visual mapping excerpt of chronologically ordered events.

Source: Author

4.3.3 Data Analysis Stage 3: Temporal Bracketing Strategy

The third stage of analysing the collected process data follows temporal bracketing strategy defined by Langley (1999). The chronologically constructed time-series data were cross-compared and different patterns were identified which led to the emergence of three temporal brackets of capability development (Langley, 1999; Langley and Truax, 1994; Van de Ven, 2007). The three phases were entitled *Phase 1: Philanthropic Orientation, Phase 2: Responsive Engagement* and *Phase 3: Stakeholder Co-creation*. This permitted the explicit examination of the changes and the adaptation of new practices within each time episode – before the financial crisis (2004-2007), depicted through Phase 1: Philanthropic Orientation, during the financial crisis (2008-2009) or Phase 2: Responsive Engagement and the defined as Phase 3: Stakeholder Co-creation, the period after the financial crisis (2010-2012). Table 4.5 outlines the three breakdown phases of sustainable-capability development.

Table 4.5 Overview of three breakdown phases of sustainability-capability development

PHASES IN DEVELOPING SUSTAINABILITY-BANKING CAPABILITIES (2004-2012)	
PHASE 1: PHILANTHROPIC ORIENTATION (2004-2007)	
Early 2000	RBS included in a number of CSR-related international benchmarks (UN Global Compact, the Dow Jones Sustainability Index, FTSE4Good)
January 2004	First Corporate Responsibility team launched as part of the firm's Public Policy department alongside Communications and Marketing. However it does not exist since 2007 after a shuffle of senior management.
Mid-2004	RBS publishes its first CSR report, which offers qualitative insight into the bank's non-financial practices; new CSR-related policies are developed.
2006	The bank started working with Deloitte (third-party auditor) on sustainability report assurance on issues such as health and safety, customer complaints. This was a third party auditor checking the accuracy of the bank's reporting.
Late 2007	Group Environment Board introduced to oversee the bank's environment practices.
Late 2007	CR team moved into Group Communications

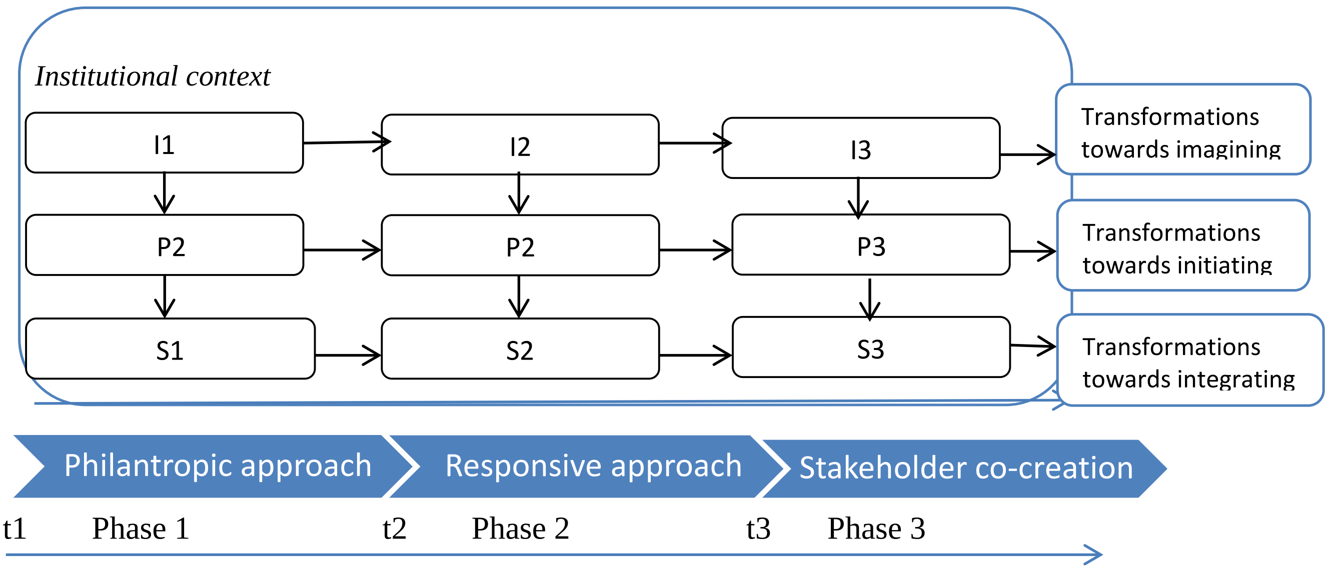
	Start of the global financial crisis
Mid-2008	RBS suffers a major organizational crisis; recapitalized by the UK government.
PHASE 2: RESPONSIVE ENGAGEMENT (2008-2009)	
Late 2008	Corporate Responsibility was renamed to Corporate Sustainability to indicate the change in the firm's direction
Late 2008- **Early 2009**	Major restructuring of the bank, including introduction of new management and leadership Decision made to integrate sustainability into corporate-governance and risk-management activities New Sustainability Committee was formed
Early 2009	Sustainability Forum established – comprised of senior management across the group; meets every two months; aims to raise awareness of emerging issues and support the Committee
Mid-2009	RBS introduces an ESE (ethical, social, environment) Risk Team, which is aligned with Group Sustainability Division but based in the Credit Risk function
PHASE 3: STAKEHOLDER CO-CREATION (2010-2012)	
Early 2010	First Customer Charter introduced; details 14 commitments of the bank towards its customers.
Early 2011	New voting software system introduced; allows customers to share complaints and opinions about the bank's practices Transparent publishing of top customer complaints introduced
Mid 2011	First energy report – as a first attempt to enhance disclosure on an issue called 'Our Finance within the Energy sector'
Mid-2011	Five sustainable business principles developed and introduced (a good employer, secure, a responsible citizen, open, supportive) Change in approach to employee remuneration and rewards.
Late 2011	Stakeholder-engagement approach to sustainability introduced
Early 2012	System introduced to monitor and assess employees' individual service and assistance to customers.
Late 2012	First RBS Sustainability Group Conference held in London
Late 2012-	'Think outside the Bank' internal campaign was launched, trying to promote the idea about the wide impact of the bank's activity in the society among RBS personnel. If previously the stories in the RBS magazine were focused on 'inside the bank' in phase 3 they are for the 'external impact of the bank'

Source: Author

4.3.3 Data Analysis Stage 4 & 5: Thematic In-depth Coding Strategy and Empirically Grounded Process Model Construction

To deepen the understanding of the sustainable-banking capability development dynamics in these phases, I zoomed into the phases closely and coded the data on each of the three levels -- individual (cognition), processes and organization (structure). Each one of these three levels of analysis has been argued to constitute the micro-foundations of organizational capabilities and routines (Felin et al., 2012) The applied temporal bracketing strategy allowed the composition and application of comparative units of analysis through a replication logic in every phase (Langley, 1999). Figure 4.5 demonstrates the adopted multilevel of analysis approach in this study. Figure 4.6 shows the data structure.

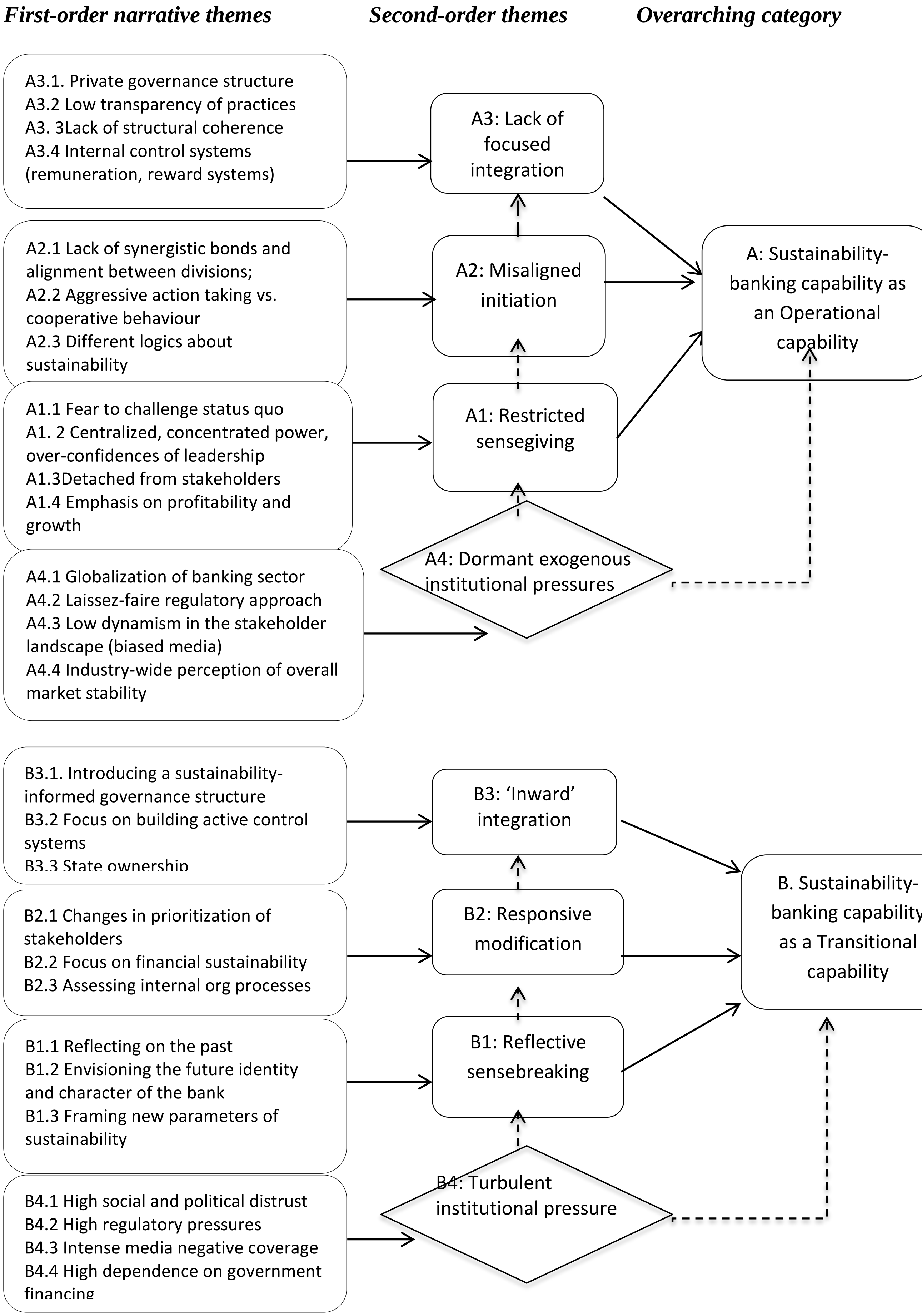
Figure 4.5: Constructed process coding matrix: Building theoretical and empirical bridges across levels

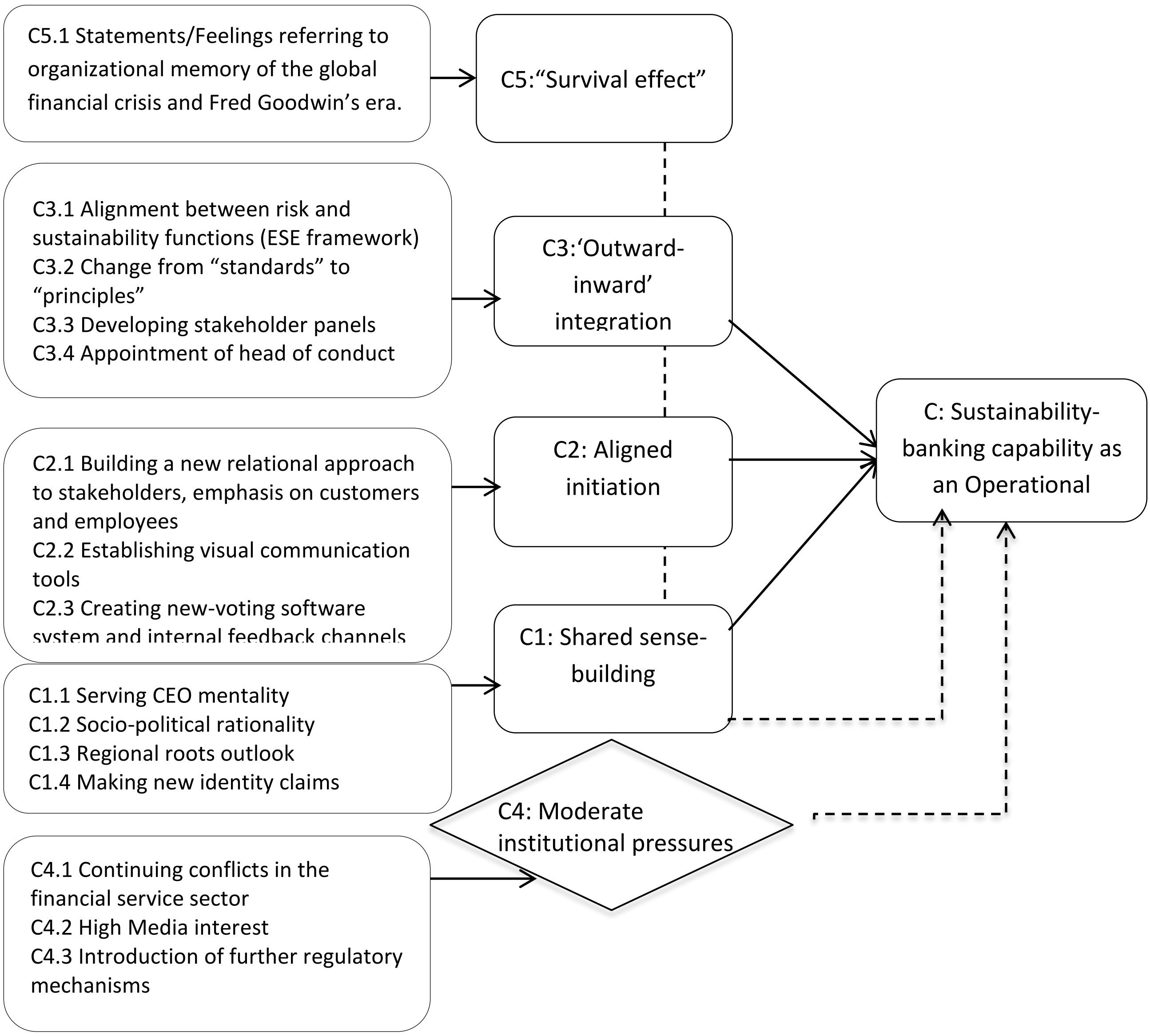


Source: Author

The adopted approach permitted a novel understanding of capability development in the context of changing institutions by focusing not only on the individual level micro-foundations of capability development but also on the relationships at different levels of analysis. The analysis process continued by going back to the primary data and following a more in-depth critical reading line by line as well as between the lines. In this stage, emerging narrative sub-themes (first-order narrative themes)

Table 4.6: Data Structure





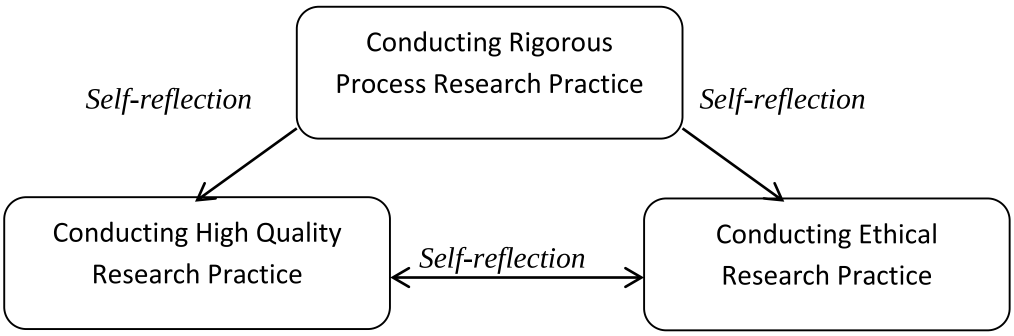
started to emerge from the chronological narrative anecdotes based on constant comparison technique (Glaser & Strauss, 1967; Strauss and Corbin, 1990). The emerging sub-themes, which included interpretative data from observations, secondary data sources as well as anonymous informants' opinions, were sorted out based on the studied three levels of analysis of capability micro-foundations as well as within each of the explored time intervals of capability development. Based on their thematic denotations, the observed emerging sub-themes were aggregated to second-order themes, which made it possible to distinguish three key theoretical processes. The emerging theoretical constructs were used later to build a theoretical process model of sustainable banking capabilities development.

At the later stage of data analysis, as I also relied on my disciplined imagination (Klag and Langley, 2013), in order to ensure accuracy of my interpretation of the data, and to ensure the managerial practicality of the constructed model, I spent 11hours of feedback discussions with top managers of the bank as a validity and reliability check.

4.4: Conducting Rigorous Process Research Practice

The question of what constitutes a high quality, rigorous qualitative research has triggered the research attention of a number of scholars in the management field (Pratt, 2007; Easterby-Smith et al. 2008). It has been argued that rigorous qualitative studies explore topics which are timely in nature, persuasive, contributing to existing literature but also such that encourage new research questions and agendas (Siggelkow, 2007). Moreover, a process study of a rich rigour has been argued to consider traditional research quality criteria (internal and external validity, construct validity, reliability, self-reflection, transparency) of research practices as well as ethical conduct (procedural ethics as well as culturally specific ethics) at every level of the research process (Tracy, 2010). Therefore, I aimed to build a rigorous process research study based on a high quality criteria and ethical research practice, discussed in greater details in the next sub-sections (see Figure 4.6).

Figure 4.6: The Process of Building Rich Rigour in this study's research practice



Source: Author

4.4.1 Conducting High Quality Research Practice

A number of research quality criteria were considered while defining how academically rigorous a particular research practice is. Trustworthiness or research credibility have been argued to be established mainly through a context-dependent degree of reliability and validity (Lincoln and Cuba, 1985; Lincoln (1995). The choice of a particular analytical strategy for theorizing from process data requires taking a specific route to ensure credibility in the research process (Langley, 1999). Highly trustworthy research practice is usually determined by the transparent approach through which a researcher shows the limitations that he/she has faced in respect to the adopted analytical strategy as well as how he/she has managed to overcome them and build a coherent chain of evidence.

In process-oriented research studies, ensuring reliability and validity of the classified critical events during the visual mapping stage as well as the identified phases of capability development process during the temporal bracketing stage of processual analysis is an essential prerequisite for building a credible chain of evidence (Hinings, 1997; Van de Ven, 2007). To establish this prerequisite, the researcher of this study followed the recommendation of Andrew Van de Ven (2007) in asking the key informants of the study for their feedback on the researcher's interpretation of the identified critical events listing as well as about their recommendation on any missing but key events. Table 4.6 represents an overview on how external, internal and construct validity, reliability as well as reflexivity were achieved in this research.

In terms of external validity, the aim of this study is not to achieve a statistical generalization but rather an analytical generalization, which is based on generalization from empirical observations rather than on a large population sample (Yin, 1999). The external validity of the study was enhanced by the adopted nested approach of case study analysis, exploring three different case studies within the same organization during three time intervals (before, during and after the financial crisis). Each one of the observed phases was regarded as a separate case due to the significant organizational changes and the different levels of uncertainty (low, high and moderate) in the institutional context of study. The choice to study the Royal Bank of Scotland (RBS) rather than any other banking organization is phenomenon- driven, extreme case identification of a company with a 'near-death', survival experience.

The applied synchronic and diachronic primary data triangulations of real-time and retrospective primary as well as secondary process data assisted in enhancing the internal and construct validity of the emerging observations, sub-themes and conceptual constructs in the data analysis stage. The detailed explanation of the data analysis and the data collection stages as well as the explicit use of the name of the studied organization aimed to enhance further the transparency and the reliability of the study. However, no research study will have high levels of accuracy, reliability and validity if the researcher is not aware of his/her research bias when assessing the collected knowledge.

Pablo Picasso once asked: 'How can a viewer live a picture as the painter himself has lived it?...'A picture comes to me from far off, who knows how far I divined it, I saw it, I made it, and yet next day, I myself don't see what I have done. How can one penetrate my dreams, my instincts, my desires, my thoughts . . . and . . . seize in them what I have brought about, perhaps against my will?' (Klag and Langley, 2013, p. 159 citing Dasgupta's reading (2004) of Christian Zervos' work on Picasso).

Similarly to any viewer of a masterpiece by Picasso, my interpretation of the collected and the analysed process data in this research study is idiosyncratic, influenced to a certain extent by my theoretical pre-conceptualizations, and cultural and professional background. In order to minimize any personal research bias as much as possible and to allow theoretical constructs to emerge independently from the data, I tried to remain self-reflexive from the beginning of the research journey until its end. Conducting validity and reliability checks by asking the informants of the study for feedback was a helpful approach for reducing personal bias and finding out the source of the source of any misunderstanding.

Table 4.7: Considered Research Quality Measures

Type of Quality Measures	How was it achieved in this research study?
Reliability	The name of the organization under study (in this research the Royal Bank of Scotland) was made explicit rather than anonymous. Detailed explanation of the gathered data, how it was analysed and theoretical constructs derived.
Construct validity	Data triangulation. Both secondary and primary data were gathered and triangulated in this research study. Original interviews were carried out with senior managers involved in the company's decision-making processes. Direct observations were made by the researcher in the organizational setting.

	Providing a detailed explanation how the data were gathered and how the main challenges were overcome. Detailed explanation of the data analysis process and the construction of a chain of evidence. 11 hours of discussions with interviewees over the researcher's interpretations of the data and the constructed process model of sustainability-banking capability development.
External validity	Applying a nested approach of case study analysis, by exploring different case studies within the same organization. Each one of the observed phases (before, during and after the financial crisis) was regarded as a separate case due to the significant organizational changes, observed in each of these time intervals. Providing a detailed background on the company case study and detailed explanation of the institutional context by providing a transparency in the construction of the chain of evidence. Providing a rationale for the case study selection. In this research study, the choice of exploring the case of Royal Bank of Scotland (RBS) is phenomenon driven, extreme case identification. The RBS is the extreme example of a unique company case of surviving a 'near-death' experience.
Internal validity	Applying synchronic and diachronic primary data source triangulation techniques.
Process of reflexivity	Remaining critically reflexive to author's own theoretical pre-dispositions and research bias during the entire research process as well as the writing phase of the doctoral thesis.

Compiled based on Gibbert, Ruigrok and Wicki's (2008, p.1467) framework for an investigation of rigorous case study research and Van de Ven (2007)

Source: Author

4.4.2 Conducting Ethical Research Practice: Ethical considerations

Research ethics refer the ways in which a research study is conducted and reported (Eriksson and Kovalainen, 2008, p. 62). The conduct of research ethics is interrelated to the credibility of the research process as well as the anticipated research outcomes. The entire research process and the research outcomes of this study were achieved through an ethical manner (Bryman and Bell, 2007). Ethical principles such as informed consent, full respect to informants' dignity and personal information, and avoidance of any harm, risk, deception or plagiarism guided the entire research process from the review of the literature part until the last conclusion chapter in this thesis (Eriksson and Kovalainen, 2008).

The participation of all informants in this research was completely voluntary. All informants were treated with full respect for privacy and protection of sensitive personal information and experience. In the beginning of every interview, each one of the interviewees was informed about the research objectives of the study and that they would be able to withdraw at any time of the interview process. Moreover, all of the informants were asked for consent before any shared information was recorded either manually or electronically.

Due to the seniority of the interviewed managers in the organization, their identities and the research records of informants was kept confidential. I promised that all of the collected primary data and internal secondary data would be treated confidentially and the only person to have access to it to be the researcher herself. It was made explicit that non-authorized access to managers' personal data would not be given under any circumstances. All of the informants' names and positions in RBS were made anonymous. If informants' names had been made anonymous but managerial positions revealed, all of the respondents could easily have been recognized, which may have infringed interviewees' data privacy. These circumstances necessitated the respondents' personal and professional data not be disclosed. I coded them and numbered SM1, SM2, SM3 (Senior Manager One, Senior Manager Two etc).

Sponsorship may result in a number of ethical problems, the most serious of which relates to the question of censorship that the sponsoring organization may exercise on the research outcomes (Eriksson and Kovalainen, 2008). However, I did not encountered this particular ethical issue during the conduct of this research as the my thesis was not sponsored by the Royal Bank of Scotland Group or any other bodies or individuals related to the organization. The undertaken study remained politically neutral during the entire research process and it was motivated solely by the author's curiosity towards the observed phenomenon and the defined gap in the development of organizational capabilities literature.

The type of relationship between a researcher and a participant is an essential consideration in the ethical conduct of any research work. Eriksson and Kovalainen (2008) present three types of researcher-participant relationships. According to the authors, the researcher can remain detached from and neutral to the researched object, marginally participant (participant-observer type) or he/she can be an active participant, involved in the evolving changes in a given organizational setting (Eriksson and Kovalainen, 2008, p. 65). The researcher-participant relationship in this study refers to the second type of relationship – marginally participant (participant-observer type) where the researcher is required to protect the anonymity and the trust of his/her interviewees.

To avoid any ethical misconduct, during the entire research process I tried to remain reflexive on her research biases, theoretical pre-disposition and cultural background (being an Eastern European female of Bulgarian nationality) that may lead to diverse understanding of interview data and management of specific ethical concerns (Alvesson and Skoldberg, 2009; Urquhart, 2013).

Quoting and referring to other authors' works or ideas in the systematic literature review chapter as well as in the other chapters of the doctoral thesis was done by applying Harvard Citation Style. This helped to acknowledge other authors' contributions in the explored field of capability development and to avoid any forms of plagiarism. Nevertheless, I followed strictly the University of Edinburgh's self-audit checklist for level 1 ethical review.

4.5 Summary

This chapter presented an overview of how the process data in this research study were collected and analysed. In contrast to non-processual, longitudinal studies, where the data collection and the data analysis stages are relatively independent from one another, in process research studies such as this one, the data collection and data analysis progress to a large extent in parallel to each other.

The first part of the chapter described the data collection process, the challenges that the researcher of this study encountered when trying to gain and keep primary data access during a turbulent time, as well as the primary and secondary data sources that inform the research narrative. In the first part of the chapter, a detailed overview of the data triangulation process was also presented. The triangulation of both secondary and primary data assisted in enhancing the validity and reliability of the constructed chain of evidence. The first part of the chapter concluded with an explanation of the temporal design of the study.

In the second part of the chapter, I presented the adopted ‘hybrid strategy’ of processual data analysis. The applied analytical approach included Langley’s (1999) narrative strategy, visual mapping strategy and temporal bracketing strategy for making sense of the collected process data. The data analysis was conducted in several stages: namely, the stage of composing a preliminary narrative storyline through reading line by line and triangulating the collected data, the visual mapping strategy stage, where a detailed timeline of critical events was composed, and the temporal bracketing strategy stage, during which three key phases of capability development were identified. The next stage included the revision of the storyline and the development of a coherent narrative story. The analysis continued with thematic in-depth coding strategy, where the researcher of this study zoomed closely into each of the identified phases on each of the observed levels of analysis. The processual analysis concluded with the construction of an empirically grounded process model of capability development.

CHAPTER FIVE: DEVELOPING SUSTAINABILITY-BANKING CAPABILITY IN TIMES OF CHANGING INSTITUTIONAL CONTEXTS

5.1 Introduction

The objective of this research study is to explore the development of a specific type of dynamic capability, that of sustainability banking capability, by focusing on the individual, process and structure-based micro-foundations that constitute them in times of changing institutional contexts. The adapted process analysis and particularly the temporal bracketing technique reveal three key phases through which the sustainability capability in the Royal Bank of Scotland emerged. The three phases are described as the following: *Phase One: The philanthropic route (2004-2007), Phase Two: The responsive engagement route (2008-2009),* and *Phase Three: The stakeholder co-creation route (2010-2012).*

Each one of the charted phases of development pictures diverse set of micro-foundations that constitute the company's capability diachronically (over time) and synchronically (across levels and layers of learning). More specifically, the chapter tracks the transformations in these micro-foundations showing how they change over time to inhibit or accelerate the development of the organization's sustainability banking capabilities. These changes occur in periods where institutional complexity and uncertainty exist which alter the form and the function of these capabilities in the organization over time.

5.2 The early years of stable growth

Founded in Edinburgh, United Kingdom in 1727, before the global financial crisis the Royal Bank of Scotland was often referred as an example of one of the most successful banks in the financial services industry, a model of stringent governance structure and leadership. The bank grew rapidly after the First World War, mainly through a large number of mergers and acquisitions in the 1980s, realized by the group's chair at the time – Sir George Mathewson and the recruited by him chief executive officer (CEO) – Fred Goodwin and later the successor of Mathewson - Sir Tom McKillop. The ambitious acquisition strategy of the bank was made possible due to the substantial deregulation in the UK banking industry in that period, seen by many financial experts as an accelerator of the pervasive effect of the global crisis in 2008.

The 1980s was also a period of a strategic diversification for the company, which resulted in the establishment of an innovative telephone based car insurance company named *Direct Line.* The insurance company gained rapidly a significant market share and reputation in the UK market. Soon, RBS became popular for its innovation led strategy mainly with its introduction of customers' house purchase loan schemes and later the wall cash machines. In the same period of time, the bank continued to grow through its merger with Williams & Glyn's Bank, a response to the major takeover threats by HSBC (Hong Kong and Shanghai Banking Corporation) and the Standard Chartered Bank) at the time. This success story established RBS as the first nationwide bank. The CEO's and chairman's vision for forming a global bank reflected in the bank's expansion of international operations with the acquisition of the American bank Citizen Financial Group.

In the 1990s, the first major strategic reorganization and restructuring in the Royal Bank of Scotland took place. On the priority agenda for the RBS management was the expansion of the company's retail banking division and the creation of innovative banking services. Shortly, Adam & Company private bank was acquired and soon a 24-hour customer telephone banking service and an Internet banking service were running for first time in the UK. Undoubtedly, a contributing factor to the rapid expansion of the organization and its innovative business culture was the ambition and the confidence of the senior management teams and centralized decision-making style of CEO Fred Goodwin (Martin and Gollan, 2012).

In the beginning of the year 2000, another major transformation happened in the RBS group. The company decided to acquire the National Westminster Bank (NatWest) in March 2000. The event was the largest acquisition in the British banking history, which made RBS by 2006 one of largest companies in terms of market capitalization in the UK and number five in the world (Kennedy et al., 2006). In the same month, RBS gained control over the Irish Ulster Bank and First Active.

In 2004, RBS acquired Charter One, a US based financial service group which further contribute to its legacy of becoming a global bank. However, according to number of the bank's investors this was the most overpaid takeover in the banking history. The global aspirations of RBS continued with the acquisition of 10% stake in Bank of China in August 2005, to which Fred Goodwin referred as "*a ticket to the game*", stressing the importance to achieve a dominant position in the global banking industry (Internal magazine, 2006; Annual report 2005). Since the year of 1999, the banking group has acquired and integrated 26 businesses, whose combined market value was around £33,700 ion , an equivalent to the size of the whole UK electricity industry (RBS Internal Magazine, Winter, 2007, p.2).

The range of acquisitions allowed RBS to enter the new century with a strong capital generation providing financial services to over 36 million people around the world. The successful strategy of RBS before 2008 and especially in the early years from 2000 onwards made the bank a paradigm of a company, built on a platform of excellence, continuous innovation and long lasting reputational capabilities. The company's success became a storyline in a number of academic case studies, such as cases entitled 'the Royal Bank of Scotland: Masters in Integration (2003)', 'The Royal Bank of Scotland Group: The Human Capital Strategy (2007)' published in the highly rigorous business journal (e.g. Harvard Business Review).

Theoretically, RBS's capability to acquire efficiently and effectively other banks can be defined as being acquisition-based dynamic capability as it included a hierarchy of selection, identification and reconfiguration abilities (Helfat et al., 2007, p.83). During this period of historical development, RBS managers and in particular the bank's CEO had the ability to effectively select and identify such acquisitions, which gave access to new resources (e.g. innovative banking services after the acquisition of Adam and Company private bank; access to financial resources through the acquisition of NatWest).

The capability of RBS management to acquire and integrate financial institutions was soon replicated in other banks, being a part of RBS. These processes exemplify the ability of the bank to reconfigure its resource base after a given acquisition and to transfer resources across the organisation, which simultaneously improved RBS evolutionary, and technical fitness performance (Helfat et al., 2007). However, the fast speed of acquiring other financial organizations resulted in an increase in the size of RBS together with the turbulent environment in the financial sector, eventually affected both its evolutionary and technical fitness weakening the dynamic nature of the bank's acquisition-based capability.

5.3 Phase one: The philanthropic route in times of stability (from 2004 to 2007)

The first stage of developing sustainable-banking capabilities at RBS can be described as philanthropic in nature. It initiated in 2004 when the company was trying to consolidate its culture and gain the legitimacy of its new stakeholders, a result of the increasing number of businesses which were acquired by the company. The starting point of this phase can be assumed to be the introduction of the company's first corporate social responsibility team, in 2004. This phase is assumed to have lasted until the beginning of the global financial crisis in 2008. Before 2007, the development of sustainability banking capability was limited to the functions and operations of a corporate responsibility team which was a part of the existing at the time public policy department which was operating as a sub-division of the bank's marketing department.

The early days of the development of this new organizational capability resembled the early days of *a start-up business.* It included two or three members at the time whose job can be described as relatively marginal in comparison with the rest of the banks functions and business departments. The company's sustainability capabilities were developed under the broader umbrella of the term corporate social responsibility (CSR), which had general and unclear connotations across the banking group at the time. Overall, the main activities of this newly established team was the practice of writing group reports in times when the business was expanding further internationally and was trying to establish further its position in the US market. A senior manager in the bank who witnessed the emergence of this new practice recalls:

> *It was like a start-up business basically, our brief was very vague; it was around just writing corporate reports. But it was little by little that we get the crew. I would say there were a lot of differences between the first four years and the subsequent four years in terms of our objectives, and the process through which we implemented (SM 1).*

One of the interviewees explains how the socially responsibility practices and logic mattered mostly in terms of marketing and image creation in the new markets in which the bank was internationalizing.

> *Pre - crisis what we had…people forget but prior 2000, before we acquired NatWest we were a small mainly regional bank in the UK with a good reputation but we were a small player in a big world. In that time global players were becoming bigger. In 2002 we acquired NatWest we did some more acquisitions. We became from a small regional player to the fifth largest bank in the space of few years. But the problem that we had …was the perception of people ….. The global marketing activity not the product or service marketing was about changing most perception of people and showing that we are in the same league as City Bank as the HSBC etc. so in order to be perceived as being in the same league as them we had to be in the same places as them. That was reflected in the sponsorship, in the type of external communication with stakeholders, the type of advertisement etc. (SM 14)*

He clarifies further that the objective of the company at the time was to reach and influence its international shareholders, which informed its socially responsible activities.

> *Our role then was to track down the people who are around the world who can influence markets and have RBS in their face you know…*
> *At that time travel was important, airports were the places that can influence shareholders as was the United States that was where the share price could be influenced because up until then again it was a case where having been perceived not only in reality being a large player but also the perception as well (SM 14)*

In 2007, after a change of management, it was decided to be no longer a department which led to the placement of the corporate responsibility team into Group Communications. According to one of the interviewees who witnessed the majority of these changes, this was not a strategically informed decision. Namely, it was driven by the departure of one director and instead of replacing him; the company's management moved the work into a different line.

Besides the number of recognitions and awards for being a best in class sustainable organization, the analysis of the narrative data suggest that the development of sustainable banking capabilities in RBS was limited only to the functional level, informed mainly by the dominant management team led by the executive Fred Goodwin, but less embedded on the structural and processual levels in the company.

Next sections illustrate some of the key individual-based micro-foundations which influence the development of sustainability banking capabilities.

5.3.1 Transformations in individual-based micro-foundations

Restricted Sense-giving

The data gathered from the interviewees suggest that the bank's sustainability activities were mainly decided by a handful of company's executives and in particular by the company's centralised leadership, interested in building RBS as the most powerful global banking institutions.

> *The practices have significantly changed you know. Between 2002 and 2007 our core objective was to build awareness of the group in the UK also to build a perception of being a global bank, we had global sponsorship, the role was really to make RBS famous global brand, we were large at that time, we had a lot of acquisitions, that is another question whether they were successful. All the ideas were coming from the top, the CEO (I do not want to say this name but...Fred Goodwin you know…) (SM 17)*

Furthermore, a stronger causal relationship between the centrality of the decision-making and the nature of sustainability practice is detected in the conversation with a number of the bank's managers.

> *Before the team will be told …you know a direction from above…just give a few thousands…we want to give money here, so here are they. This is cynic but it was the truth. Shameful truth! You know the reality has not been that different elsewhere. What differs RBS from other banks is the scale of restructuring it was pretty much an entire clear-out of the organization. (SM 17)*

The orientation of the company's practices was a reflection of the company's culture and the close environment in which various operations were initiated and integrated. According to the narratives of the interviewed senior managers, the strategic decision to initiate a particular idea was tightly related to the decisions of the company's powerful executive and his followers, and these decisions were often impossible to challenge.

> *"This was very much the culture because it was such a dominant and controlling CEO that did not want exactly everything to be exposed, all the issues. And locally the CEO did not want the company to expose any issues to the board, so it was not an open environment where people can openly talk about big challenging issues. It just did not happen. It was seen as the failing of the executives, so almost as an insult to them and their departments...it was all very well trailed …I do not want to talk about it…" (SM 5).*

The narrative of some of the interviews suggest that corporate fear was a group-level inhibitor of the ability of most of the employees to challenge the status quo as and to deal with any threats to the bank's sustainable future.

> *"I believe people were scared to challenge the status quo because you are either one of us as Fred was saying or you are out. It was not easy to say why we do not check our performance in customer service for example but we report it as we have done so" (SM 9)*

The powerful and meticulous nature of the executive was associated with overconfidence by the rest of the organization which constrained the process of communicating and discussing freely the occurrence of particular challenges on a daily bases.

> *"The problem was a cultural issue of a very confident management team and CEO who believed that they were doing the right thing. I guess they all had good intentions but this is not what actually came as a result…You know (pause)…Fred Goodwin was still buying shares in the last six months; he and his team were still investing in the company with their own money" (SM 8).*

The culture in the period between 2004 and 2007 resembles what one of the managers described as being an "imperial culture". During this period the corporate power was concentrated merely in the hands of the chief executive who tended to influence and coordinate both the more marginal and the more crucial corporate decisions.

> *"This was not an Enron set-up where you had a fundamentally corrupt senior management team. This is a hard case to get in because it is about confident and hubris, corporate anthropology…which I do not think it is a phrase but I am using it….the culture of the place and how big decisions are made and so on. But you know what …there was no evidence that Fred Goodwin was a crook …this has never come out even in the FSA report, it did not, it just said it is really a complex blab for reasons. I think this makes RBS a bit different from other failed organizations. Certainly the actives that you get around all the negatives issues you get with an imperial kind of culture of one person firmly controlling everything. And this place was as I said before was a bit as a royal court especially in 2007 and 2008". (SM 1)*

Similar view is evident from the discourse of another bank manager, who put even more emphasis on the inhibiting effect of the executives' overconfidence rather than arrogance when researching the sector and stakeholder demands.

> *"Overconfidence disrupted the organization, maybe not arrogance but confidence that we were successful and things were working fine…we assumed*

things rather than researched and consult with the external stakeholders and interested groups. That was a mistake, indeed" (SM 11).

In similar vein, in an interview for local media, the successor of Fred Goodwin, Stephen Hester explained that the root of the problem was in the over-optimistic behaviour of the bank's previous management. Referring to the Icarus paradox from Greek mythology, he stated that Fred Goodwin *"flew to close to the sun"* (Scotsman, 2009). In a similar allegorical manner, the following anecdote from one the bank's directors shows the over optimistic global aspirations of the chief executive.

The snowman

"Growing up my best friend was a snowman. He started noticing girls along time before I did. He fell headlong for this beautiful volcano. I said: "Mate, you couldn't get close to her without melting." He looked along his carrot nose: "That's why I love her". They got married soon after. It did not last." (Anecdote 5 from RBS 55 Fiction competition, Author (anonymized), RBS Internal Magazine, 2012, p.21)

However, as a consequence of the very central decision-making and leadership most of the key divisions of the group felt that they were left on their own destiny and were feeling disunited with the rest of the organization.

"We had a very strong central leadership which carry businesses along with them to be a very customer-led organization now in contrast to before. I do not mean that we were not customer focused before but the businesses were not that much more part of the group, they were very much part of their own destiny" (SM 26).

The decision-making and operation functions of the organization were concentrated in hands of the executives whose style of dominance and individualistic approach appeared to have a deterring impact on the collective sensemaking of sustainability.

"The group was using more the stick than the carrot and that was just a reflection of the personalities that were heading the divisions of that time …I do not know…I think as once one of the former bosses said "our role is very much like to kind of facilitate a discussion but also to hold the chords which is an analogy when two people are having a fight one should be the referee. I think our role on group level has changed; it is fair to say that before it was a group chief executive led organization. The organization was led by the group CEO as people will follow his footsteps also it was (pause)…much more fragmented organization that it should have been. After 2008, it has been

going through a reforming stage. We have definitely been into the storming stage in the performing reforming cycles" (SM 4).

5.3.2 Transformations in process-based micro-foundations

Misaligned initiation

Another interviewee's perspective confirms the above view, reaffirming the lack of alignment and synergistic bonds between the multiple divisions and working groups in the organization.

> *"Before there was no cohesive internal messaging until then there was a cohesive message now things have changed and there is a more cohesive message even from the top saying the focus should be on the customers. This is really simple now, it was not before. But it is important to have it said rather than unsaid. I think people who work in the group in different divisions before; they did not feel like they work in one organization"(SM 22).*

During the first phase of development, the company's sustainability practices were only in their infancy, and mainly involved joining and developing benchmarking practices (e.g., The Equator Principals of the UN Global Compact, the Dow Jones Sustainability Index, FTSE4Good). Nonetheless, RBS's sustainable-banking capabilities took root in this period through the development of new sustainability practices and by the replication of the best practices of other banks. As one of the bank's former senior manager recalled:

> *"We were learning about CSR [corporate social responsibility] just by following and implementing common industry practices. This was more like mechanically ticking the boxes. We needed to satisfy the corporate. We saw what others were doing or what the requirements for an inclusion in a particular benchmark were and we did those things" (SM 22).*

The way the bank's CSR team was learning how to develop a particular sustainability informed practice was through accumulating knowledge from the sector through benchmarking and delivering it through a different narrative packaging. Another interviewee expresses similar point of view.

> *"Previously before I started the bank has no policies of this kind in place and no benchmarking or screening was done. Then, we did a screening exercise just before we started to see which European banks have got such policies and such screening for minimizing the risk and which have not got that. We found that many European banks are really lacking these policies" (SM 19).*

Responding to the standards of the international benchmarking assessment was a trigger for the codification of some of the bank's practices such as the Group's Corporate Responsibility Policy in the beginning of 2005 (Corporate Responsibility Report, 2005, p.6). Most of these reports were carried out by third party auditors who helped to enhance their assurance and legitimize them. In 2006 the bank started working with Deloittes as a third party auditor on sustainability report assurance on issues such as health and safety and customer complaints. The role of the auditors was to check whether the reports were accurate and whether they were making sense in front of the bank's diverse group of stakeholders. One of the interviewees reveals further:

> "*Fred Goodwin saw the value and the auditors helped us to get some corrections for the company. It was the auditors telling us something rather than the team. It sounded more official" (SM 4).*

The interviews with a number of company's former and current senior managers suggest that often the bank's corporate social responsibility reporting and its implemented policies functioned as an external reporting mechanism with explicit marketing purposes. The first company's corporate responsibilities reports were usually limited to the presentation of general surveys, macro testing on health and safety materials, volunteer work or sponsorship programmes.

During the 2004-2007 period, the bank had significant earnings and was generating significant capital. This informed its sustainability activities which with no surprise were primarily oriented towards donating money to charities and financially supporting community initiatives. Furthermore, the bank donated a large number of money sponsoring cultural and sport events across the world, which stood also a symbol of its affluence in the financial sector.

For example, in 2006 and 2007 the bank contributed approximately fifty-eight million pounds each year in community programmes (Corporate Responsibility Report, 2007). The company's culture and the mentality of the management team was communicated through advertising and sponsorship campaigns featuring high-profile individuals such as top class European and American golfers as Jack Nicholas, Luke Donald, Charles

Howell, Paula Creamer, tennis players such as Andy Murrey, Pete Sampras as well as other sport figures such as Zara Phillips and Jackie Stewart.

Figure 5.1: Less talk/Make it happen logo (2004-2008)

Photo 1: "Less talk/Make it happen. It's those on the sidelines who seem to do most of the talking. But then the greatest achievers don't stand on the sidelines. Like Pete Sampras our reputation is built on getting things done, which might explain why we've quietly grown to be one of the biggest banks in the world!"
Photo 2: "Less talk/Make it happen: There will be always more people who talk than actually do it. At RBS our reputation is built on getting things done. So you won't be surprised to hear that the bank which has quietly grown to be the fifth largest in the world, is now working with golf legent Jack Nicklaus, the man who quietly won 18 majors!.

Source: Royal Bank of Scotland Archive

The preliminary message of the company's campaigns reflected a culture dominated by aggressive action taking rather than cooperative behaviour and communication across the bank divisions. There was a lack of business logic besides that of marketing behind many of the companies' socially informed corporate activities. One of the bank's former managers reveals:

> *Before the crisis I was not responsible for [department anonymized] so we did not have business case for our socially responsible work; it was a good will sort of practices, just giving cash that we had. There was no business logic behind it. And often these will be directed by the personal interest of the chief executive and one or two of his close buddies …so it was not run as a business function. (SM 9)*

In the following year, RBS continued to expand its operations abroad and in particular in the United States but extended also to global financial publications such as Financial Times, Wall Street Journal, the Economist, Money, Fortune etc. This informed the international evolution of its Less Talk/Make it happen campaign (see Figure 5.1 and Figure 5.2) which used very American language and terminology, trying to say that RBS is an organization that does not talk what they are doing but just get on and do it.

Figure 5.2: The international evolution of Less talk/Make it happen RBS logo

Photo 1: Less talk. More walk: The Royal Bank of Scotland did not become one of the largest banks in the world by sitting and talking about it."
Photo 2: "Less mouth. More muscle: The Royal Bank of Scotland did not become one of the largest banks in the world by sitting and talking about it."

Source: Royal Bank of Scotland archives

Similar images and messages were replicated in many of the company's annual reports as well as CSR reports issued in the period between 2004 and 2007. The representation that these external communication programmes were trying to create was of a bank which was the largest and most profitable not only in the United Kingdom but also around the world. The following opening sentences in the group's chief executive's statements in the bank's 2006 and 2007 corporate responsibility reports mirror the bank's proud.

Figure 5.3: RBS 200 United States pre-crash campaign (2004-2007)

Photo 1: “Make it happen: Find out how clarity can help you make it happen”.
Photo 2: “Make it happen: Find out how ingenuity can help you make it happen”.

Source: Royal Bank of Scotland archives

> *“2006 was another good year for the RBS group. We have continued to build on our strengths across the businesses resulting in a 10% rise in our income and a 14% rise in our operating profit to £9,414 million” (Sir Fred Goodwin, Corporate Responsibility Report, 2006).*

> *“RBS enjoyed a successful year in 2007 despite challenging market conditions. The Group’s operating profit increased by 9% to £10,282 million and we led the successful acquisition of ABN AMRO” (Sir Fred Goodwin, Corporate Responsibility Report, 2007).*

A member of the team recalls, comparing it to “*internal propaganda*” which was used to gain the legitimacy of the bank’s stakeholder groups.

> *In regards to the internal reports and magazines you see a very big change of tone, before it was more or less an internal propaganda, now a recent copy would have a people’s story, changing culture, customer centricity. Before it will be all about the bank, we have grown etc…another acquisition etc. Now, we are more people centred (SM 9)*

The philanthropic activities of the organization together with its culture of continuous innovations such as the mobile phone banking service which the bank launched in August 2007 (RBS Press release 15/08/07) have granted RBS recognition from a number of top ranking agencies. In October 2007, the bank was named a leader in the management of social and environmental issues, placing it on the Climate Disclosure Leaders Index, and was awarded by Innovest with the highest possible rating -AAA (RBS Press Release 12/10/07).

The findings suggest also a major fault in the way research was conducted and findings were reported internally and externally of the organization. Although the bank used to publish number of survey results and to discuss them as "important issues identified by its stakeholder groups", the information shared by the banks' managers reveals that the reported issues in the company's reports were often a reflection of what the managers assumed as being important for the bank's stakeholders without taking into consideration what the stakeholder groups were really thinking about a particular issue. The narrative of one of the respondents unveils further the logic behind this managerial practice.

> *"It was more like…here is a new product or service that we came up with and because it is new and we are the first to develop it, we tended to report that it was of a key concern for our stakeholders such as employees or customers"(SM 15).*
>
> *"Prior to 2008, we were a recognized global bank with excellent reputation, and we were feeling we knew what we are doing; we have the core competences and capabilities. But after 2008 we saw that we are not doing many things well and we need to change our strategies, for ex. what we were doing with our customers. There was no engagement with customers to see what we need to. It was more of a case where we were speculating what would be good to do from marketing perspective, what we are thinking it is good" (SM 27).*

The above quotes demonstrate how the corporate aspiration for being an innovative bank and becoming the best in the sector blinded the management and resulted in practices for which the bank was trying to give sense by codifying them as being legitimized by various groups of stakeholders. Moreover, the narratives of the respondents suggested that although all stakeholder groups were represented equally in terms of their importance for the bank, the bargaining power of certain groups was greater than other which placed the rest of the group's stakeholders in a more marginal position.

> *If you ask me and the sustainability team, I would have shown you a wheel of stakeholders all are equally represented. Our job is trying to balance but in reality things are not as they are in paper. There are a number of main stakeholders there. Investors and regulators were definitely the most important and dominant stakeholder groups that was it, media and NGOs did not really matter, customers were ok. I do not think it was as customer-central but mostly investor and regulators. At times, even the investors were not treated in line respect; it was really about mainly regulators and corporate governance. It was about corporate level. But of course on local level, the different RBS branches there were differences, the focus was different and context specific (SM17).*

As the managers' understanding of sustainability centred only around sustaining the sales of the company and the wealth of the shareholders, a number of social and environmental risks were neglected. One of the interviewees who used to work within the sustainability department in the period before the crisis recalled such example from the past.

> *"In 2005 we had an issue with paper indicator assurance but we did nothing about it. We wrote it on paper but we did not do anything, this is an example of what did not work, there was no initiation of what was suggested"(SM 26).*

According to the narratives of the respondents, one of the reasons for neglecting key sustainability issues for the business was due the pressure for speedy decision making in the organizations, driven from the obsession of the executive Fred Goodmin with expanding the size of the business. The temporal orientation of the management was primarily forward-looking with a little reference to past practices and past mistakes which resulted in short-sighted strategy planning and execution. Although to some extent this was beneficial for a faster implementation of new ideas and resources, it provoked a self-centred behaviour across the various organizational divisions and departments. Many of the interviewed managers revealed the weaknesses in the group communication processes.

> *"I think there was some talking before across divisions but not that much of true collaboration where people try to find what the issues are and how to tackle them together. There was an incentive to hide any issues…otherwise you will drop on the rankings and you might be fired (pause)…I do not want to apologize, we have families…I have two kids, one in college and the other to*

be in college…(pause) but this is the past, can we change it, not sure about that" (SM 7).

A similar view was shared by another respondent, who highlighted the positive effects of the bank's top-down approach of communication when dealing with threats from industry competitors. The data revealed that to some extent the lack of dialogue and group communication improved the promptness of implementing strategic decisions and neutralizing threats from competitors. Such strategic practices enhanced to certain extent the economic sustainability of the organization.

When we launched [anonymized] as a strapline, it was a case of 'Ok Mr. Corporate, Ok Mr. Retail, this is your new strapline, there was no dialogue…..it is simplistic to say there was no dialogue but there was no 'great dialogue' if you see what I mean… 'that is a new strapline and this is how it will be' and of course on operational level there was much more dialogue in terms of how to implement it. But if you look at from a simplistic point of view, it was really…'here is what we do, let's do it'. As an organization that meant that we made decisions a lot quicker that sort of management structure…that sort of management style…we made decisions a lot quicker which was quite beneficial in terms of competition…[…] (SM11)

Besides the inhibiting effect of the limited communication on building sustainability banking capability across the organization, the findings suggest that it was often obstructing other broader organizational capabilities such as the capability to sense and seize opportunities for delivering innovative product and services.

"In the past, the issue was communication – maybe due to a lack of interaction with the 'front office', or the 'business side' of the business. These are the people that make the money and create the products. We, in the back office, are the thinkers. We have a support function (e.g., HR, communication. etc.), so we do a lot of external research and we find opportunities that can really make a difference in society. However, often the business side does not understand our ideas or it is too late when they do, and the competition has already launched the product we have suggested. I can recall such a situation when we did the research to find out why partially sighted people do not have that much access to finance. Then, due to a lack of understanding from the front office, another bank was first to address the issue. It won an award for innovation" (SM 4).

There was not only a detachment based on the specific role and functions across the bank's specific department but also a cognitive divide among them. Reflected in the above quote, the organizational members of the bank tended to ascribe themselves to particular set of responsibilities which were oriented towards the company's shareholders and investors and had an economic rationality. As one of the company's managers revealed:

> "*We all had different logic in terms of what sustainable bank meant mainly because pre-crisis most of the time security of money was at the top of the important issues agenda I think before not only here but also in general was seen more as a philanthropic kind of activities and just providing charities with financial support and NGOs, it did not focus on managing risk*" (SM 9).

Besides the coordinating role of the corporate responsibility team, there was a collapse of a group sensemaking in the organization. The routinized functions of every department unabled the individual managers to detect systematic risks and a persisting lack of understanding across the group (informal conversations). Moreover, the heterogeneity in the objectives across the various departments constrained managers' comprehensiveness and group imagination in terms of sustainable banking practices. The interpretations of potential opportunities were limited to existing market data which was adequate only to the individual needs usually of a single department or in some cases the longings of handful managers.

> *"It was not a company that encouraged imagination or innovation specifically to sustainable banking. None on this kind of sustainability oriented stuff maybe only in terms of products we did some clever things which no all were good ideas in the long term, but there was a little imagination in terms of what the company is there to do and who was there to serve, so it was a very narrow view, it was very unimaginative, it is only about shareholder value and actually serving the corporate elite." (SM22)*

Another interviewee emphasized the fact that on individual level, often individual managers across the group would try to propose promising, new ideas which were not initiated due to lack of shared understanding about the importance of a given practice.

> *"For example in terms of lending policies, we came up with the idea back in the time that we need them in 2006, we were not able to initiate them until 2010 and we integrated them in the end of 2012, the beginning even of 2013. It was not encouraged to progress some new ideas of sustainability; it was an environment where it was difficult to raise new interesting ideas on sustainability" (SM13)*

To a large extent the difficulty to initiate and integrate certain sustainable practices was a result of the weak structural systems in the organization. The next section discusses the impact of some of structure-based micro-foundations which accelerated in some cases and in other cases impeded the development process of sustainability banking capability in the organization.

5.3.2 Transformations in structure-based micro-foundations

Lack of focused integration

At the time before the global financial crisis, the corporate governance structure of the group was relatively weak in terms of the implementation of a common understanding and practice of sustainability across the organization. Although the bank was investing heavily in the integrating operational mechanisms as part of its undergoing post-acquisition strategies, these investments were enhancing the economic pillar of sustainable banking; the narratives of the managers from various departments indicate that except the corporate responsibility team, sustainability matters often stay limited and disintegrated from the core strategy of the bank. The next quote is a vivid example for the lack of coherent structural mechanisms to allow for a focused integration of sustainability principles into the group's various practices.

> *"There was no real structure. Sustainability matters were not implemented in the structure at all. Even though we had it in the reporting it was not in the decision making of the firm among the senior and the middle managers. It was just another marketing thing" (SM 5).*

In the period before the financial crisis, only the economic value created by the company's managers was appreciated and awarded. This was evident also from the reward mechanisms through which the bank incentivized its employees. The incentive for a well done task was a monetary compensation which seemed to nurture further performance oriented behaviour and lavish corporate spending. A reflection of one of the interviewees provides an interesting insight.

> *"Before the crisis, we had the resources, the company was giving a lot of commissions and performance based rewards. For example we you perform well you get like 10% of your salary and people used to go with those money to holidays or to pay your credit cards or buy company shares. We used to have draws for cars, for example if you have been in the company for 5 years, you have one ticket that goes in the draw, if you have been here 10 years then you have three tickets and so on" (SM20).*

In this period the bank established a remuneration and benefits team as part of its human resource department. Its primarily responsibilities included pay research and benchmarking, and management of competitive reward programmes such as RBS*elect* , *Total Reward Calculator* and *Service Recognition Scheme*, which were stimulating further the group's economic rationalization of responsibility, recognizing employees' contribution to the company through generous car awards at the end of every month (Annual Report 2005). Furthermore, the data revealed that many of the banks's established structural mechanisms for managing their stakeholder relationships were not integrated fully. One of the managers revealed:

> *"When I took over RBS's employee engagement work in 2000 we did a survey that measured satisfaction. It was not taken too seriously at first, but now we are now doing a global survey that provides deep insights measuring engagement and leadership effectiveness across the bank. Most companies would not be able to say that measures from their employee survey are embedded in their performance management for their leaders. But we can." (SM7).*

Similar heuristics and rules guided the decision-making of the group's various divisions. According to both current and former managers in the bank, the key problem for the lack of a focused integration of sustainability practices was the stimulation of self-interest across the group mainly through similar reward schemes (research notebook; participant observation). One of the interviewees noted*"[t]he problem is that different heads of different divisions have different opinions on what sustainable culture is and how we need to institutionalize it" (SM1).*

In contrast to a number of commentaries in the media arguing that the cause of the financial crisis was in the lack of enough risk management schemes and policies in the banking sector (BBC Documentary), the conversations with a number of RBS managers together with the analysis of the group's internal documents and external reporting suggest a contrary view. It was the high degree of complexity across the group together with a trust-based approach of management resulting from the very quick decision-making tactic which prevented the sustainability logic to leave the boundaries of the marginalized corporate responsibility team. One of the interviewed managers revealed some of these practices. He stated:

> "*There was also a reputation risk policy in the bank which basically said you should escalate transactions of clients involved in a range of different sectors*

but it was relying on relationship managers to escalate those so it did not make them undertake any assessment of the company it was just a manner of trust for the relationship managers to escalate them so it was a very weak system in terms of policy and process" (SM1).

The complexity of the risk management and operation systems which expanded significantly during this period of intense acquisition strategies hindered the ability of the executive managers to define common parameters of risk. As one of the respondent stated "*It was in the differences in the parameters of risk taking not in the risk taking behaviour per se"*. He continued, *"We are a bank at the end of the day, we need to create shareholder value, but the parameters are what we got wrong"*.

Before the financial crisis, the risk management function of the bank was governed mainly by the heads of every division, who were responsible for developing risk management frameworks and ensuring their effectiveness within their particular area of operation (Annual Report 2006). On structural level, the self-interest and short-termism caused by the bank's culture of generous remuneration schemes obstructed the institutionalization of the sustainability logic beyond its philanthropic connotations (informal conversation with a former manager). Furthermore, a part of the problem occurred also in the misbalance between the qualitative (e.g. policies, principles and procedures) versus the quantitative elements (e.g. stress testing mechanisms, risk concentration, credit risk related metrics) of the risk management function (Annual Report, 2006). An RBS former manager explained that "*often the bank had policies which were not synchronized with qualitative elements like the stress testing mechanisms" (SM 18).* He pointed out that the understanding of what risk is differed across the group. Overall, it was perceived as "*a danger to the financial sustainability of the firm and its ability to follow its global strategy*".

A contributing factor was the lack of coherence in terms of the management information systems in the group. In this regard, in an interview published in the Group Internal Magazine in 2007, one of the senior managers exposed the following challenge for the bank.

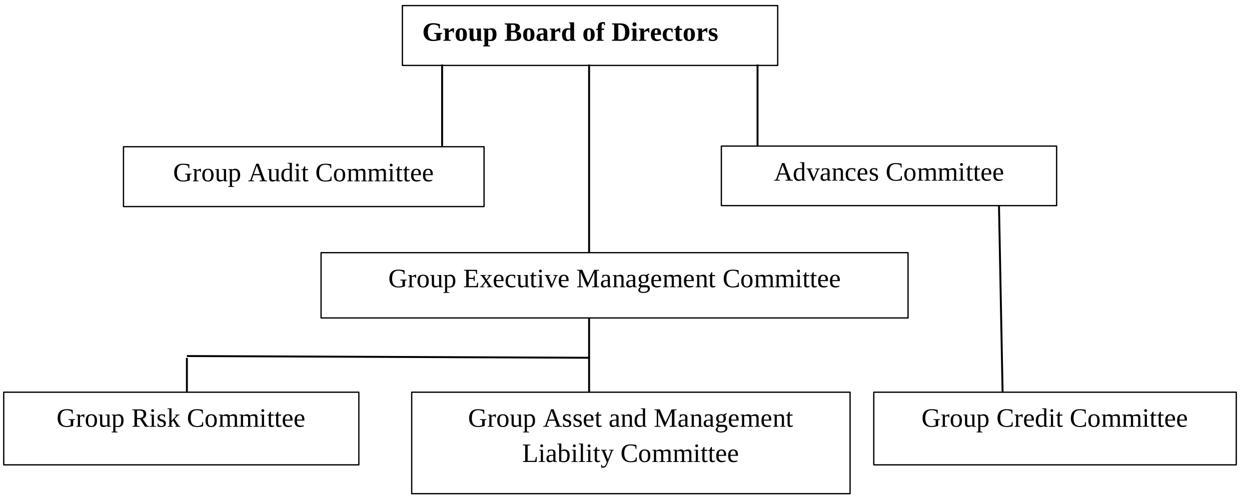
"One thing that needs to be addressed, clearly, is our management information (MI). Different units all have separate MI systems so they'll have various lists

of customers and prospects in different formats. Getting a common list is one of the challenges for us" (Internal Magazine, 2007, p.14).

Before the financial turmoil, there was no robust governance structure of sustainability in the bank. In fact, the corporate sustainability function was not a part of the direct responsibilities of the governance committees.

Figure 5.4 illustrates the bank's group governance structure between 2004 and 2007. The governance structure was composed of three main board committees – the group board of directors, group audit and advances committee, and four executive committees – the group executive management committee, the group risk committee, group credit committee and the group asset and liquidity management committee. During my time spent in RBS headquarters as a participant observer, through a number of various informal conversations with current managers in the organization, it became clear that besides the flexible and open organizational design in RBS Gogarburn's headquarter; processes of coordination and communication were neither enabled nor constrained by the specific structural design of the bank (participant observer's observations; notebook).

Figure 5.4: RBS Group Governance Structure (2004-2007)



Source: RBS Group Annual Report and Accounts 2007, page 70

Although when one enters the bank's headquarter, its organizational design, based on flatless structure and a collective arrangement of the office space, appeared to be a model for a superb working environment where communication, collective sensemaking and knowledge sharing is facilitated, the data suggested that the embedded in the structure bureaucratic logic of governance restrained the managerial capability to detect internal risks and malpractices (participant observation, informal conversations). Metaphorically, a manager's anecdote titled *Red Tape* from the RBS 55 Fiction competition sheds lights on these trends.

> *Red Tape*
>
> *"It slithered around my ankles the first day at Gogaburn. An irritation, but I ignored it. Two months in, it had climbed to my waist, bringing on indigestion and sometimes foul mood. Now six months in, it chokes me, numbs my brain. I loathe the inertia it brings to my world. Blasted red tape. (*Anecdote 2 from RBS 55 Fiction competition, Author (anonymized), RBS Internal Magazine, 2012, p.21)

In similar vein, another manager's fiction story reveals the bureaucracy in the organizational system which constrained the ability of managers across the company to raise complaints towards particular unsustainable practices and behaviour. This limited the transparency of management practices internally and externally.

> *The Commuter*
>
> *'He's sitting in my seat', I hear every morning and evening, they All think it's their seat, forgetting there's more than one train, leaving behind their papers and cups, feet on the seats, oh what a mess. What about me, how do I complain? I am only a train.* (Anecdote 7 from RBS 55 Fiction competition, Author [anonymized]

Interestingly, the findings showed that path-dependency resulted from the old organizational system before the bank's headquarters were moved to Gogarburn as well as the close proximity to the financial market in London contributed to the lack of integration of a sustainable banking culture. One of the interviewees noted that though the new organizational structure aimed to facilitate communication and knowledge sharing across the various departments, this was not achievable between 2005 and the start of the financial crisis due to the time required for people to adjust. He noted:

> *"Yes, we move in the Gogarburn office in 2005 and in 2008 was the crisis. It takes time people to adjust to the open environment of the office; specious area where everyone can communicate freely with all the other people in the departments, this changes the culture. The challenge is that things in London are different; you still have the old type of system there. Another thing is that people there are constantly in the market. You go during lunchtime to grab a sandwich and next to you is a guy from Standard Life for example. People change positions and work constantly there. This brings a lot of difficulty to sustain the culture. Here, in Edinburgh everything is different as we are even outside the city. You can communicate with people next to you, as the guy from the other department is just next to you sitting" (SM24)*

Overall, from my perspective as a researcher it appeared that the sustainability logic was not integrated fully in the bank's culture. It was a function of the firm's Communication and Marketing division but it did not align with the core strategic conduct of the banking group. A number of contextual factors influenced the development of sustainability banking capabilities during this stage, next section discusses them.

5.3.4 Contextual features: Dormant exogenous institutional pressures

During the first phase of capability development, several exogenous institutional factors appeared to influence the development process of sustainability banking capabilities. In particular, the analysis of the data indicated institutional dynamics such as the globalization of the banking sector, the laissez-faire regulatory approach of the UK banking system (FSA report, 2011), together with the low dynamism in the stakeholder landscape to play a relatively inhibiting role in the interplay between the microfoundational characteristics and the constituting those learning mechanisms.

The analysis of the process data indicated that the inhibiting effect for the development of sustainability banking capabilities across the group was in the significantly *dormant* character of the exogenous forces in the industry. In the first phase of development, sustainability banking capabilities emerged in an institutional context which was perceived at the time as being relatively stable by the group's managing executives in regards to the present at the time economic regulatory risks.

In this period the RBS group was facing intense competition in all the markets it served, especially in the UK retail and commercial banks, building societies as well as from a number of international competitors headquartered in London such as Barclay's Group and Citi Group (Annual Report 2005, 2006, 2007; The Turner Review,).The intense rivalry across the banking industry increased the economic rationalization of the company's executives and provoked a riskier management decisions (informal conversations). Thus, the normative style of the majority of banking institutions was oriented towards 'maximizing shareholder value'. For RBS, this tendency was evident in several statements made by Fred Goodwin, the bank's group executive: *"I am not shy of having made a profit. I kind of thought that was what companies were meant to do"* (Croft, 2004, p.6) and "*We have an infinite appetite for equity stakes*" (Davies and Tucker, 2005, p. 2). This focus was viewed as a natural outcome of banking institutions' efficiency-oriented operation politics (Croft, 2004). The "acquisition hungry" strategy of RBS did not differ from the growth strategies of its main competitors in the industry driven by "*ill-understood financial innovations meant to reduce risk but which had reverse effects*" in the sector (The Scotsman, 2009). Such activities were enhanced by the hands-off regulatory approach driven by the UK government which at the time missed to oversee the on-going large acquisitions in the sector (Scotsman, 2011).

The increased complexity in the banking system together with the increased authority of boards and senior management weakened the supervisory role of the UK financial regulator and failed to challenge key business decisions, business models and prudential risks (FSA Report, 2011, p. 289). In this way, regulatory pressures were reduced significantly due to the inadequate and reactive approach to risk supervision on behalf of the financial service authorities (FSA report, 2011, p.75). There was a lack of a day-to-day evaluation of potential risk factors on behalf of the FSA and a number of bad decisions for RBS. The accumulating complications in the sector in this period made the whole UK banking system dependent on the wholesale funding that increased liquidity in the banking sector, which became evident only in the financial turmoil at the end of 2007 and the beginning of 2008 (Scotsman, 2011).

The analysis of the contextual dynamics before the financial crisis revealed isomorphic behaviour across the industry which was inhibiting any chances for an early detection and resolution of risky decisions. In this vein, Stephen Hester, the successor of Fred

Goodwin, noted that *"the failure of the risk management was a macro risk management, as opposed to things that were hidden in drawers, not visible."* (The Scotsman, 2009). He added that *"the real issue around risk management, not just in RBS but in Scotland and the financial crisis around the world generally, was that what we missed was obvious to all, and that's its tragedy"* (The Scotsman, 2009).

Furthermore, the analysis of the contextual dynamics in this period suggested a shared guilt and responsibility for the RBS failure which extended much beyond the boundaries of the organization. Based on the above quotes, it became evident that external stakeholders also contributed to the complexity and the increasing dominance and authority of the bank's board and management executives. One of the respondents ascribed it to the salience of key stakeholders.

> *"For me a part of the problem and why all this mess happened is also because of the silence of many people, stakeholders, government they were all happy at the time…the bank was profitable and was giving money to everyone. We used to joke internally that it is the one who does not ask, who does not get …if you understand what I mean. They were all silent at the time, so I do not think it was just the CEO, it is more of a collective guilt!" (SM 10).*

Overall, in the stakeholder landscape, RBS had a relatively low dependence on social or political support which contributed to the enhancement of its authority and dominance of the bank's management. In fact, the strong financial position of the bank in the UK economy was often praised publicly, which increased further the confidence of its business leaders (informal conversations, researcher notebook). One of the interviewees remembered the positive image that the media was creating of the bank at the time.

> *"There were a lot of people who did not like RBS but there were still giving it credit for what it was achieving. There was a completely psychopathic Scotsman article, front page in 2008, where they basically said, look at what RBS has become, and they listed all the companies that RBS is bigger than… a bunch of companies. The tone was pro-RBS" (SM 4).*

He continued further criticizing the biased image that media was creating around the bank, blurring any doubts about its financial stability.

> *"I do not know what the view is, but in my point of view this is not good journalism. People make assumptions that it was this maniac running the company against local advice but this was not the case at all – it was everyone*

– media, government, the city, authorities, regulatory. They were either on the fence or they were encouraging. It was very typical saying 'this is very wrong" (SM 4)

The narratives of former and current managers shared that in the first phase of sustainability banking capability development, RBS used to have a very close relationship with the UK government and regulators. In this relationship, the bank's management directors were in a dominant position. A number of community and sponsorship programmes in which RBS contributed financially were in a partnership with the UK government initiatives, such as the launching of the Child Trust Fund on 6 April 2005, approved by Inland Revenue. Moreover, it supported the government new initiative to issue £250 vouchers to children born on or after 1 September 2002 (Press Release 12/01/05). Just before the burst of the financial crisis in 2008, RBS together with HM government hosted the UK low carbon summit event on TATE modern in London. The event aimed to establish a platform for an open debate between business and government on the steps necessary for the transition of the UK into a low carbon economy. (Press release 26/06/08).

"I think that here the deep analysis of RBS is worth looking at. Why it was allowed to be the case, why were shareholders not pushing…back? 90% of the shareholders approved the deal, why did the board anonymously approve it, why did the government thought it was a good idea? Rarely did it draw attention but now, you know Alex Salmond sent letter congratulation to the company for the acquisition, saying it was fantastic such an established company leading such a big international acquisition. It seems very, very different now but in 2007/2008 everybody was there…" (SM 22)

Although such partnership activities between RBS and the UK government supported a number of activities which contributed to a number of social and environmental agendas, the data suggested that to some extent they were a contributing factor to the "*backdrop of political pressures for a 'light touch' regulatory regime*" and the empowering the RBS executives (Jenkins et al., 2011). Overall, such power misbalance between RBS management executives and its key stakeholders including the UK government hindered the multilevel learning processes in the organization, which resulted in a misalignment across the micro-foundational constructs of its sustainability banking capability.

Table 5.1: Phase of Capability Development and Institutional pressures

Phase of Capability Development	Degree of Uncertainty, Institutional Complexity	Exogenous institutional pressures
Philanthropic approach Phase 1 (2004-2007)	***Relatively stable***	Functional pressures from the increasing competition and global aspirations in the banking sector as a result of the laissez-faire regulatory system Low visibility in the public sphere Low dependence on social and political support
Responsive approach Phase 2 (2008-2009)	***Extremely turbulent***	High Regulative pressures High Social and Normative pressures (e.g. Occupy movements; stakeholder pressures) for high transparency of banking practices and active control systems High level of social distrust
Stakeholder co-creation Phase 3 (2010-2012)	***Moderate uncertainty***	Continuing customer dissatisfaction over high executive compensation and IT problems (e.g. public reaction over Stephen Hester's possible compensation of £750,000 and £1.1 million salary) Occurring regulatory fines (e.g. LIBOR scandal; PPI-mis-selling) Regulatory and political recognition over reduction of risk levels

5.4 The start of the Global Financial Crisis and the changing landscape of the UK banking sector

> *"… to exist you need an ideology. The question is whether it is accurate or not. And what I am saying is, yes, I found a flaw. I don't know how significant or permanent it is, but I've been very distressed by that fact"* (Alan Greenspan at a Congressional Hearing on the Financial Crisis in October 2008, cited in Blankenburg and Palma, 2009, p.531).

The year of 2008 was one of the most challenging years in the history of the financial services industry after the Great Depression in 1929. Although there is still a debate on when and how it actually started (Riaz et al., 2011), the financial crisis of 2008 is mostly believed to have emerged with the mortgage meltdown in 2007 leading to the credit crisis in 2008 and a broader economic crisis (Davis, 2010, p. 85).

The analysis on the causes of the financial crisis of 2008 suggests that it happened in an intensive period of globalization of various banking activities. This accelerated the pace with which the crisis spread as toxic assets could be moved easily from one financial institution to another across continents, countries and cities (Moshirian, 2011). While from one part of the globe, UK and European based banks (e.g. RBS, Deutsche bank; Barclays) were internationalizing extensively their operations in the United States, on the other part, US investment banks were rapidly expanding their business networks and operations in the rest of the UK and the EU (The Turner Review, 2009). The growing complexity of the banks' global expansions led to an increased rivalry, the production of more sophisticated financial products which hindered transparency of practices and contributed to the emergence of the 2008 economic crisis (Walker, 2010). In this regard, in its speech on the reform of banking, the Chancellor of Exchequer stated:

> *"One of the prices we're paying for the financial crisis is that our banking sector is now dominated by a few big banks. It verges on an oligopoly. 75 per cent of all personal current accounts are in the hands of just four companies" (*HM Treasury, Speech on the Reform of Banking by the Chancellor of the Exchequer, Rt Hon George Osborne MP, 4 February 2013 cited in HL Paper 27-II, House of Commons, 2013, p. 233).

More detailed information about the emergence of the global financial crisis in summarized in *Table 5.2*. Specifically, it describes some of the key phases in the unfolding of the global financial crisis from 2006 to its emergence in 2008.

Table 5.2: Stages of the emergence of the Global Financial Crisis of 2008

Stage	Date	Description
1.Growing credit concerns	06- Sum 07	Rising defaults in US subprime and Alt-A loans. Falling prices of lower credit tiers of credit securities. Expectations of property prices fall.
2. Initial confidence crack & collapse of liquidity	Sum 07 – Aut07	Failure of 2 large hedge funds. Sharp spreads in inter-bank funding and other credit products. RMBS funding and inter-bank funding for second tier banks dries up. Northern Rock faces retail run.
3. Accumulation of losses & continuation of liquidity strains	Aut07-Sum08	Severe mark-to-market losses in trading books. Collapse of commercial paper markets: SIVs brought back on balance sheet. Funding strains in the secured financing market. Worries about liquidity of major institutions. Government assisted rescue of Bear Stearns.
4. Intensification of losses & liquidity strains		Housing market problems recognized as widespread in UK, US and other countries, as house prices fall and supply of credit dries up. Fannie Mae and Freddie Mac

	Sum 08	increasingly reliant on US government support. Funding problems of UK mortgage banks intensify.
5. Massive loss of confidence	Sept 08	Bankruptcy of Lehman Brothers breaks confidence that major institutions are too big to fail. Credit downgrade of AIG triggers rising collateral calls, requiring government rescue. Collapse of Washington Mutual, Bradford & Bingley, and Icelandic banks. Almost total seizure of interbank money markets; major banks significantly reliant on central bank support.
6.Government recapitalisation, funding guarantees & central bank support	Oct 08	Exceptional government measures to prevent collapse of major banks
7. More government measures to offset economy & banking system feedback loop risk.	Nov 08	Impaired bank ability to extend credit to real economy led to major globally synchronised economic downturn. Introduction of Asset Protection Scheme.

Source: Compiled based on The Turner Review (2009, p. 27)

Although the global financial crisis had a pervasively negative impact for almost all industries around the world, organizations in the banking sector have been certainly the most effected entities, suffering pressures from multiple stakeholder groups and reforming the nature of their business practices. As Davis (2010) reminds, a few years ago, banking was a simple business acting as a financial intermediary between two parties conducting a financial transaction. However, after the occurrence of the global financial crisis, banking can no longer be defined as a "simple business". The complexity of the financial crisis of 2008 on the banking sector, has questioned the efficiency and the practice of old practices and logics. Moreover, regulatory pressures as well as pressures from multiple stakeholder groups have had an essential impact the sector and its recovery. These, in turn, affected the strategic direction of a number of banking organizations (Clegg, 2012).

In the United Kingdom, the collapse of the stock market in 2008 led to the British government forced intervention in the collapsing UK banks (e.g. Halifax Bank of Scotland (HBOS), Llyods, the Royal Bank of Scotland etc.). This was achieved mainly through a combination of liquidity support through the introduced Special liquidity Scheme (SLS) of the Bank of England, capital support through government recapitalization schemes from the Bank Recapitalization Fund (BRF) as well as three-year support guarantees (Walker, 2010, p.753-754). The UK government recovery plan was announced on the 8th of October 2008 which demanded banks to recalculate their capital needs based on FSA (Financial Services Authority) stress test. Based on this recalculation, Llyods TSB was bailed out by the government with £5 billion, Halifax Bank of Scotland (HBOS), which was shortly acquired by Llyods TSB, with over £12 billion and the Royal Bank of Scotland with more than £19 billion (Walker, 2010, p.755). Figure 5.3 presents some of the key events in the banking sector between 2008 and 2010.

However, besides the significance of the British government bail-out, in February 2009 the inability of the UK banking giants to cope with challenges from the financial crisis initiated the introduction of a second bail-out package through the introduction of a new Asset Protection Scheme (ASP) from the HM Treasury as a mean to establish financial stability in the industry. The scheme was initiated primarily to ensure the financial stability and survival of the Royal Bank of Scotland (HM Treasury Report, 2010). In the following years, a number of system control mechanisms, as well as more stringent risk management and governance policies were developed in the UK to ensure a more systematic and transparent approach to financial regulations (The Turner Review, 2009).

The financial turmoil initiated a parallel debate about the responsibilities of financial and banking institutions towards affected stakeholder groups. Besides companies' balance sheet, and negative publicity one of the most affected areas for businesses in the financial and in particular the banking sector has been organization's relationship with different stakeholder groups, evident from the recent '*Occupy*' civil movements around the world, including the United Kingdom. These pressures forced a number of banking institutions to revise their stakeholder and sustainability strategies and introduce new practices and processes expected to repair community trust and to build a more sustainable banking organizations.

5.5 Phase Two: The responsive engagement route in times of distress (from 2008 to 2009)

5.5.1 Contextual features: A period of a 'Near-Death' Experience

Similarly to the rest of the financial service companies, the year of 2008 was extremely challenging for RBS. However, as for the degree of distress and experienced pressures on behalf of various stakeholder groups, the experience of the Royal Bank of Scotland can be defined as being exceptional not only in the UK but also in the global financial industry as a whole.

The critical consequences for RBS from the global financial crisis came shortly after 2007. The bank undertook a challenging acquisition of the Dutch ABN AMRO for $106 billion, through the consortium together with the Spanish Santander Banking Group and the Fortis insurance and banking company (Martin and Gollan, 2012). As the analysis of a number of public and private documents of the bank indicates, though ABN AMRO acquisition, the senior management of the bank aimed to diversify further its retail banking operations worldwide. Due to his enormous appetite for success and international expansion, the bank's CEO was attributed the nickname 'Fred the Shred' by a Glasgow newspaper columnist (Mollenkamp, 2007).

Soon after the emergence of the global financial crisis, the Royal Bank of Scotland Group has suffered one of the biggest crises in its history resulting not only in terms of the major recapitalization of the bank announced in October 2008 and its subsequent refinancing from the British government but also in terms of the substantial rate of change in the organizational processes, structures and managerial vision about the firm's future.

As a result of its ambitious global strategy, the Royal Bank of Scotland entered the global financial crisis with an inadequate capital base which made the bank dependent mainly on its wholesales capital market. Besides the bank's difficulty in meeting its balance sheet due to the volatility of the wholesales capital market, the acquisition of ABN AMRO, being the last acquisition in the bank's chain of highly intensive expansion strategies, is believed to have added on the company's strategic failure, defined by the group's chairman at the time, Sir Tom McKillop as a '*bad mistake*' as it was funded primarily with debt rather than equity (FSA Board Report, 2011, p. 159-160). In May 2009, the bank was 70% owned by the government (FSA Board Report, 2011). As a result, on December 22, 2009, RBS signed the Asset Protection Scheme (ASP) and was provided with £25.5bn of capital to meet the stress tests set by the FSA (RBS Internal Documentation; Annual Report and Accounts, 2009). The ASP led to a decrease in investors' confidence which became a key challenge for the bank's management (informal conversation). According to a number of respondents, these regulatory and stakeholder pressures were a key in the adapted strategic changes aimed to ensure financial sustainability during this period (researcher's notebook).

The RBS Group Chairman, Sir Philip Hampton described the current period as having "*the worst performance in the RBS' long history*".

> *Fear*
>
> *"It came at the darkest hour. My eyes tired, but unable to close as I would watch the shadows approaching, slowly, engulfing our land. Battles have been won and lost and yet the war would not cease. Our castles had fallen, our knights killed. It was only a matter of time until...check mate"* (Anecdote 3 from RBS 55 Fiction competition, Author (anonymized), RBS Internal Magazine, 2012, p.21).

As the above fictional anecdote describes, the period between 2008 and 2009 was a period of fear across RBS as well as the financial services industry as a whole. With the financial crisis in full swing, RBS had the worst performance in its history and its period of market leadership came to an abrupt end. It is believed RBS to have lost more money than any other financial institutions with the start of the global financial crisis. The overall losses of the company were around thirty-six billion pounds in comparison to the loss of one of its rivals in the industry – City group, whose loss accumulated to thirty-two billion pounds (The Scotsman, 2009). The share price of the company fell to slightly more than eleven pennies per share, leading to a complete loss of its market position in Scotland and abroad (The Scotsman, 2009). RBS only survived due to a government bailout, which resulted in the bank being placed under public ownership and scrutiny. This led to high regulatory pressures as well as high social and political pressures. Figure 5.2 summarizes some of the key regulatory changes in the banking industry after 2008. As a former top manager recalled:

"Prior to 2008, we were a recognized global bank with an excellent reputation, and we believed that we knew what we are doing; we had the core competences and capabilities. However, after 2008, we saw all certainties removed … We realized we were not doing many things well and that we needed to change our strategies, for example, in terms of what we were doing with our customers and society at large … At the same time, we are now under scrutiny and we are very aware of our public ownership"(SM 7).

RBS faced numerous challenges. It needed to regain clients' trust, ensure that its activities were ethical, provide trustworthy expert advice and repay the taxpayers' money. During this period, the future of the bank was dependent significantly on the company's external stakeholder groups. If in the philanthropic phase of developing sustainability-banking capability, the bank's management felt it has a control over the dynamics of the institutional environment, in this period, the power shifted in the hands of its stakeholder groups. Pressures for change emanated from the government, emerging social movements such as 'Occupy Edinburgh' movements and negative media coverage. In this regard, one of the company's managers mentioned:

"This was pretty straightforward for us, the company was basically put out of business, and the brand was shocked. We were probably one of the 5 most reported companies almost for the last 5 years. We were in the papers probably most often than any other company in the world and not in a good way. Any paper you look at, RBS is at the bad end of a bad sector" (SM 11).

Similar narratives were evident in the company's external reporting.

"We recognise that we are in a privileged position to be able to restructure our company with the support of the UK Government behind us. We only enjoy that support because of our central role in the economy & society. With that support and role come responsibilities large and small. Our intention is to fulfil them in full while working to restore the company to standalone strength." (Stephen Hester, CEO, RBS Group Sustainability Report 2008).

The bank's fear from a potential cancellation or a significant reduction in the government support schemes was another decisive factor for setting a new phase for RBS (informal conversations; Annual Report and Accounts, 2009). Achieving these goals required a mind shift in how the bank managers understood and defined sustainability, as one manager highlighted:

"'Sustainable' is how we go about making the right decisions in the right way, in a fair way, and how we make our decisions transparent … We have

really started to think and to act in this manner, and this is recognized. This was not the case prior to 2008. RBS employees really recognize that there the sustainable agenda offers real benefits and that it can help us regain our customers' and society's confidence in the bank" (SM 12).

The intensity of the negative media coverage together with unsatisfied communities disappointed with the bank's politics and business conduct as well as severe regulatory pressures triggered a major restructuring plan, placing sustainability objectives in the core of the bank's transformation. The enthusiasm of the bank's senior management in transforming the bank has spread widely in the company's CEO statements, press releases as well as the frontlines of national tabloids.

The determination for developing sustainability banking capabilities became apparent from the statements similar to the one from RBS' chairman – Philip Hampton who affirmed "*building a sustainable banking organization is paramount for the survival of the group"* (Sustainability Report, 2008). Furthermore, the further documentary analysis reaffirmed the central role of sustainability in the recovery process of the bank.

"Sustainability sits at the heart of how the Group is being re-shaped and RBS maintains a strong commitment to meeting high standards of environmental, social and ethical responsibility"(Annual Reports and Accounts, 2009, p.43).

Overall, the period of the global financial crisis was an accelerator of the development of sustainability banking capability. It triggered a number of organizational changes aimed to rebuild the reputation of the bank and the trust of its stakeholders. In an interview with one of the bank's managers, he stated:

"Hugely yes, the crisis is a big opportunity for us, certainly in my area to embed sustainability in the company" (SM 1).

"I think the financial crisis allowed to change the way as bankers we think about banks, more in-depth about our daily responsibilities and individual actions that inform them (SM 24).

A similar opinion about the positive impact that the financial crisis has had on RBS restructuring and change in culture is shared from another interviewee. He explained that there is a contrasting difference between the impact of the financial crisis had on the society and banking institutions, which suffered a near-death experience such as RBS.

> *"For society the financial crisis is an inhibitor, but for RBS is probably an accelerator for many changes in practices n processes. Because most of the things that we need to make the economy as a whole more sustainable require money in the long-term this will have positive economic return but in the short-term it involves spending. And going through the financial crisis where governments are challenging, there is less money to spend. Inevitably there are fewer resources for sustainability so I think as a society as a whole the financial crisis has distracted us from sustainability issues. You know financial distress has ultimate effects. For RBS is probably different as it has been forced to massive restructuring which makes you ask the question well while we are changing all the aspects of the organization, why not embedding more sustainability practices as well" (SM 11).*

The analysis of the internal documents of the bank showed similar logic about the positive impact that the financial crisis had on RBS development as a sustainable organization in the narratives of some of the bank's current and former managers. One of the company's directors of strategy shared:

> *"To be honest, it was probably the shaking up that we needed. And this helps position us better for the future"* (Interview with SM in RBS Internal Magazine, 2009, p.13).

She continued further stressing the importance of engaging responsibly with key stakeholder groups in a way that every individual manager and employee in the bank is able to justify the choices and decisions which have been made within their area of expertise as well as on a group level.

> *"When the market is uncertain about what you're doing and why you're doing it, they discount you immediately. Well there's no tolerance for that anymore. Not from employees or customers or the regulators. Our shareholders want to know what we're doing and why. And we need to be able to answer that concisely and articulately, with the measurements and reasoning to back it up."* (Interview with SM in RBS Internal Magazine, 2009, p.14).

Thus, the second stage of developing sustainable-banking capabilities at RBS can be described as a stage of responsive engagement. Next section discusses the changes in the processes, structure and individual cognition that underlined the capability learning mechanisms through which sustainability banking capabilities are developed.

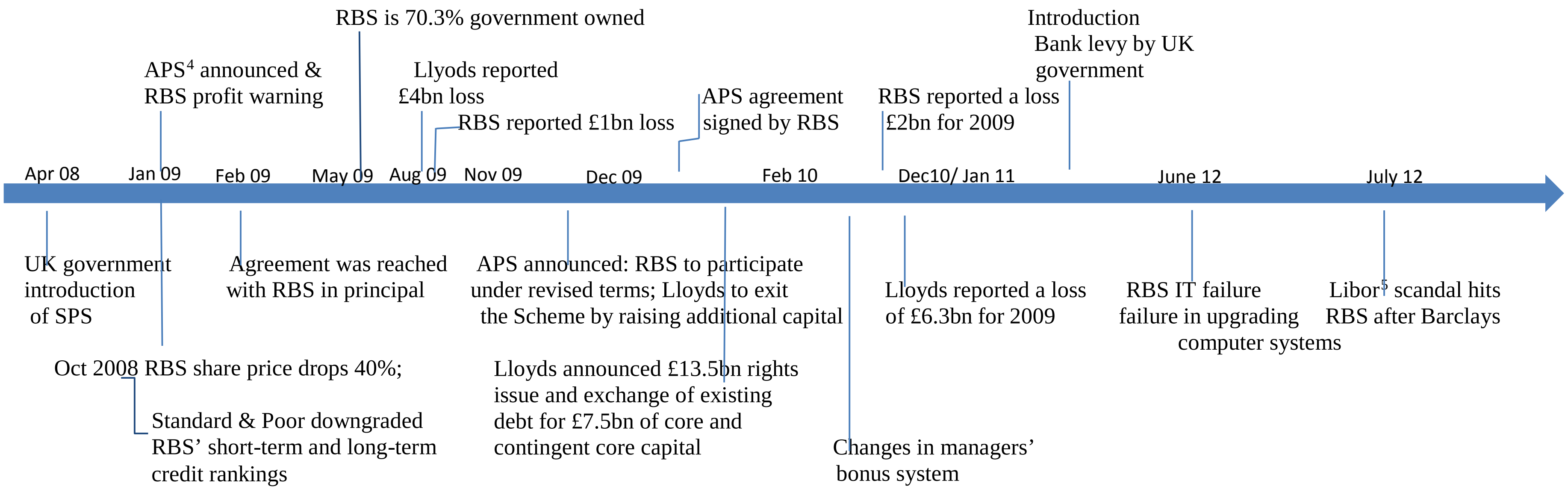
Figure 5.5 Key regulatory changes in the Banking Sector after 2008

Date of change		Regulatory change
April 2008-January 2009		**Introduction of Special Liquidity Scheme (SLS), implemented by the UK government** SLS allowed UK banks that were severely affected by the global financial crisis to swap temporally mortgage-backed securities and other securities for UK treasury bills.
2009-2010		**Changes in managers' bonus culture by the Committee of European Banking Supervisors (CEBS), adapted by the UK's FSA** The new change restricted tangible equity in that they required banks to defer 40-60% of bonuses for three to five years, to pay 50% of bonuses in shares (rather than cash), to set the maximum bonus as a percentage of an individual's basic pay, and to publish pay details for 'senior management and risk takers'.
Late 2010- early 2011		**Basel III accord, introduced by the BCBS** The Basel Committee of Banking Supervision (BCBS) introduced the voluntary regulatory global accord to strengthen liquidity requirements, set minimum leverage ratios, enhance banking risk management, and introduce stress tests and contingency planning for recessionary events. The accord is expected to be implemented by all BCBS members by 2019.
January 2011		**Introduction of bank levy, by the UK government** An annual tax was introduced on banks' balance sheets in the UK, Germany and France to discourage banks from engaging in risky forms of borrowing. The tax was made permanent in early 2012, at which time it was raised from 0.04% to 0.088%. Only smaller banks and building societies are exempt from the tax.
2011		**Increased capital regulation, by the UK government** This move introduced a 'capital conservation buffer' with the aim of increasing the buffer and enabling banks to absorb a loss of capital.
		Selection of banks' executives, by the FSA

2011-2012		The FSA (Financial Service Authority) implemented stricter regulations for the appointment of new bank executives or managers with ‘significant influence functions’, which rely on the use of formal panels to interview candidates.

Sources: Compiled based on BBC News (2013), FSA (2009), FSA (2011)

Figure 5.6: Timeline of key events in the UK banking sector (2008-2012)



Source: Compiled based on the Turner Review 2009; Financial Services Authority Board Report 2011, HL Paper 27-II, House of Commons, 2013, RBS Internal Documents.

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[4] APS stands for Asset Protection Scheme, a catastrophe insurance, a form of liability management
[5] LIBOR stands for **London Interbank Offered Rate.**

5.5.2 Transformations in individual-based micro-foundations

The second phase of developing sustainable-banking capabilities was triggered by the economic and financial shockwave that threatened RBS's survival. As the former top-management team departed, sustainability issues entered RBS's strategic agenda and its internal discourse. In addition, as the very survival of the bank depended on taxpayers' money and political goodwill, stakeholder groups beyond the shareholders entered the strategic conversation and began to affect the RBS's thinking.

The crisis along with the need for greater transparency also triggered a more organizationally rooted process of capability development. Increasingly, the attention paid to sustainability issues mobilized the generation of new strategic initiatives, enriched the internal discourse on sustainability and led to a number of concrete projects (e.g. a new risk-management framework explained further in this section), as well as the development of new organizational roles and processes (e.g. the establishment of a new sustainability committee).

Reflective sense-breaking

In the year of 2008, RBS developed an organizational framework as part of its vision to become a more sustainable bank by building sustainability banking capabilities. During this period the bank experienced a dramatic change in leadership which stimulated the organizational and identity changes in this transitional period in the capability development process. After the appointment of a new chief executive, Stephen Hester, in November 2008, the group's chairman Sir Tim McKillop was replaced together with the seven group non-executive directors. A new board of directors, headed by the group's new chairman Phillip Hampton, was formed much smaller in size with more complementarity in the skills and experience of the board members (Annual Report and Accounts, 2009; Sustainability Report 2009). In an interview with one of the company's senior managers, he stated the pervasive degree of change that the bank was experiencing in this period.

> *"Since 2008 it was a very marked change because it was the end of an era for a particular CEO who was brought to the company in 2000 and was famous*

> *with a very centralized top down way. So there was a dramatic change in 2004-2008.For every company the financial crisis would be a mark and also for us with a complete change of management and leadership and for a very short period we lost the chairman the chief executive and most of the board so almost a wholly new team took over" (SM 16).*

Many of the company's managers saw an opportunity in changing the organizational culture and to rebuild the bank into a 'sustainable' bank (informal conversations; participant's observation). Undoubtedly, the change in the company's leadership accelerated the transformation process (RBS Sustainability Report 2008; researcher's notebook) in which the corporate responsibility team, later renamed to sustainability team, became a key institutional entrepreneur. The following quote demonstrates the determination of the company's management to align its group strategy with the objective to become a sustainable bank.

> *"I felt frustration but in the same time I felt determination to perceive CSR in the rebuild. I really meant that and I was hugely energetic about it. At the core it was a good company, most of our business lines have been profitable before and after and through the crisis. It was just through some parts we experienced major difficulties. In contrast to the culture at the top, RBS was full with good people and still is. Almost 300 year old organization, prior to the financial crisis has never made a lost of one year. This is a strong company with strong roots in the culture in Scotland in Edinburgh it is a under different layers of leaderships it has been incredibly well; you know the icon of the Scottish economy. And 2000 to 2008 RBS was different but what we did from 2008 was for good reasons. The company has become more detached as it made a number of acquisitions but it actually did not integrate the company did not bring it together, so the balance sheet grew at incredible rate during these 10 years but I should say that not all of our internal structure get in pace with that. So it felt like even to me as a junior analyst in 2004 I can see a company which grew within a year like a teenager boy who is growing but does not really know how to use his strengths. It felt like that" (SM 1).*

An essential part of the recovery process was to revise the meaning and the practice of sustainability across the organization's various divisions. Towards the end of 2009 capability development phase, the members of the organization started gradually to envision the future identity and character of the bank. This happened mainly through the process of reflecting on past mistakes, evaluating the various processes and activities in the bank in terms of their sustainable character and framing of the new parameters of sustainability in the bank (informal conversation; participant observation). These cognitive and behavioral features encouraged capability learning through *reflective sensebreaking.*

The understanding of past mistakes involved both a forward and a backward-looking reasoning. As noted in the company's reporting:

> *"2009 was also the year we set about dealing with our past and making sure we can grow sustainably in future"* (Annual Report and Accounts, 2009, p. 25)

The reflective cognition of the bank could be found in the narratives in the company's internal documentations including passages of tribute to the great moments in the company's past like the introduction of double-sided bank notes as a way to prevent fraud in the 18th century (RBS Internal Magazine, 2009). However, in the same company's internal documents, through a reflective turn the bank management expresses the need for an organizational break up with the current identity of the company, relaying only on past successes (internal documents). In this vein, in an interview, published internally, Stephen Hester states the need for RBS group to change its focus towards the future.

> *Focus on the future*
> *"We must put the past behind us and rebuild RBS on its powerful customer franchises globally, and in time deliver the financial returns that shareholders expect and deserve"*(RBS World issue 4 Jan/Feb 2009).

Similar strategic intentions are sensed from the speech of the bank's chairman.

> *"I want to begin by offering my own perspective on where the Company is and what we must try to do now. The past is done, we cannot change it. We must recognise what has happened and why, identify lessons and learn them. But most of all, right now,*
> *we must focus on our potential and deliver it. RBS has excellent businesses at our core which can be the foundation of future success"* (Extract from the speech of RBS Chairman Philip Hampton during the Annual General Meeting to Shareholders on 9 March, 2009)

He added further:

> *"Since I and, in particular Stephen Hester, joined the Board I don't think we would describe any of our experiences as a 'honeymoon period'. But we have*

joined recently enough, I hope, to remain objective about the past while focussed firmly – as we must be - on the future" (Extract from the speech of RBS Chairman Philip Hampton during the Annual General Meeting to Shareholders on 9 March, 2009)

Reflecting on past mistakes and envisioning the future was a way through which the group was trying to build a coherent strategy. As the below quote demonstrates the regulatory pressures that the bank was facing acted as an accelerator of the reflective sensebreaking processes through which the management team was trying to articulate the issues in the previous capability learning processes.

> *"On board level…how we went about it strategically…was to think, to think thoroughly and assess what went wrong in the past, what needs to be change and why we became sightless to degrading practices. The results from the strategic review, together with the recommendations from the FSA and the Walker report helped us in the process of breaking the old practices and establishing the legacy for the new RBS" (SM 8).*

The next quote represents a similar view. By comparing the RBS group' culture and strategy prior to the financial crisis to a puzzle in which the pieces are connected wrongly and the formed picture is unclear, one of its former managers recalled the time when the company's new board of directors and management team evaluated internally the previous logic of management. Such internal reflection was paramount for developing the path, which RBS needs to follow to accomplish a full recovery and financial stability.

> *"Imagine a large puzzle of a thousand pieces…my grandchildren often play with those and often try to connect the wrong pieces… the pieces sometimes fit if you push them a bit, but they do not make a picture…then I help (laugh). The same happened to RBS, a bank of hundreds of pieces and practices which did not fit together well. We needed to think and to go back, check what does not make the picture, pull out the wrong pieces and restructure it" (SM 25)*

The data unveiled that in the period when Fred Goodwin was leading the bank, RBS was "*proud not to have a group strategy*" but instead to "*follow opportunities*" (informal conversations; RBS Internal Magazine 2008). One of the company's managers explained that though before most of the bank's individual businesses had "*a strategy at the product and customer level, the lack of strategy was at the Group* *level. There was no adequate explanation on how all of these businesses fit together, nor how they would continue to fit together over time" (SM 15).*

As a way to break with the past and redefine itself as a sustainable bank, the bank's management started to review and to reflect on the company's collective meaning and practice of corporate responsibility. As the below quote demonstrates one of the first strategic actions that the company's management initiated was to detach itself from the notion of corporate responsibility.

> *"Yes, 2008, 2009 were very difficult, the company was just in crisis. It was very difficult to have meetings at that time we were trying to manage things on 24h basis we started to emerge and a new leadership team got settled from that crisis. And new executives came to post. We had the government bail-out funding; which stabilized the entity of RBS. We began to plan for what is happening next, and early 2009 I was asked for my ideas on CSR and sustainability. My firm recommendation was first we need to drop CSR to make it clear very clear that the previous strategy was not working so we wanted an emblematic change and I also moved to an idea, this was to become a sustainable business but not anymore only about the serious obligations we needed to do. My key issue was responsibility, CSR. Responsibilities are usually obligations, you take one which does not necessary makes your life easier, you know probably in your personal life you can responsibility for an elderly it is good to do but it is not a core to your life, your business" (SM 1).*

He continued clarifying further how sustainability is different from the notion of corporate responsibility and what this means for the bank in this period of exogenous shock.

> *"Sustainability has a different connotation, it talks about long-term sustainable business, it is much, much stronger. That was agreed and then set up to do further. So it needed the strategy by representatives' business committee, so I put a paper up so the group board by surprise agreed just because it was just a dramatic change from having no committee. In company terms it was a big deal, because it requires a reporting and let's say if it is supported by the company's secretaries, they have full authority to put things in practice. I have never chased employees; the company's secretary is doing that and people. So I think, over three years of running that committee, nobody has every failed to deliver a paper when he has been asked to deliver a paper. This has been something like 15 papers in a meeting" (SM 1).*

During this period, the primary objective of the sustainability team was to enforce a cognitive transformation in the group's various divisions and to make sure that the rest of the managers in the bank were perceiving sustainability not only in terms of the external or the internal value that they were creating outside or inside the bank, but rather as an intertwined unit of both.

Gradually, the logic of sustainability started to be perceived as a distinct construct from the previous connotations of the CSR across the divisional managers. By breaking up with the ostensive character of the sustainability capability from 2004-2007 period, the sustainability team aimed to build a common ground across its divisions where shared cognition and motivation could emerge. As the following narrative suggests, such a change aimed to symbolize the ambitious renewal of RBS and to reduce confusion and ambiguity across divisional managers, responsible for embedding the sustainable bank logic inside their divisions.

> *"Why 'sustainability'? Because we believe that this better represents our renewed ambitions; it sits at the heart of how we are changing the business we do and the way we do business. Sustainability is not just about the many responsibilities and obligations that we have as a company, but about specific issues which we need to address to ensure that we have a healthy and respected business operating on a sustainable basis, in every sense of the word. This is the starting point for both the new management's strategic plan for RBS and our approach to 'sustainability'".* (Chairman's statement, Sustainability Report 2008)

Making 'sustainability' a part of the group-level discourse aimed to invoke changes in the individual's mental frames and stimulate the attunement of the sustainability logic within the group. During this period of extreme turbulence for RBS, the development of sustainability capability was happening mostly on the cognitive level than on the practice level. The following quote explains that most of the micro-foundational transformations occurred in the approach of reflecting about a certain activity, rather than a change of an activity per se.

> *"It's about creating sustainability over the long-term rather than building simply for an up-market. People shouldn't see it as a huge change from what RBS is currently doing. But it's a huge change in how we approach what we do and how we measure our success – and it affects us all." (SM 20)*

The analysis of the primary and secondary data showed that in this phase, the majority of the group managers perceived sustainability as being a strategic direction for the long-term survival of the company through a responsive stakeholder management. In similar vein, another interviewee stated:

“For me sustainability is really about the long term. It is not about what we want to do this year or next year it is what we want to improve on and what we want to embed in the company over the coming years so I think for me looking at your questions from the other side is looking where we are now which is post 2008 is clearly about making sure that this company is going to be here in 20-30 years times and make sure we cover a number of principle areas in terms of being secure, supportive towards customers and open and honest organization, being responsible citizen” (SM 18)

It was perceived as being a key towards the restoring of the bank’s damaged reputation and balance sheet. The next quote summarizes the general view perceived in this stage of the capability development process.

“Yes, it has changed definitely even the name it used to be called CSR through the years to sustainability because from a group perspective we want to be a more helpful sustainable bank. Helpful is quite clearly defined from our chairman, repairing clients trust, making banking ethical and giving expert advice, while ‘sustainable’ part is a bit more open for interpretation as people see it differently but mainly. Some people will see it as existing long term over a time period. We see it where we go about. So helpful is what we do and sustainable is how we go about it, making the right decisions in the right way in a fair way and being transparent with the decisions we make so actually the customers like us, stay with us and this will make us sustainable in the long term. I think we have really started to act in this direction, and this is recognized which was not there prior to 2008, so really recognizing that there is a real benefit in the sustainable agenda and it can help us regain our trust on the bank, confidence in the bank from our customers” (SM 9).

As the above quotes suggest a key aspect of what the bank’s management was suggesting when applying the concept sustainability and/or sustainable bank was the importance of understanding the needs and the opinion of its stakeholders, primarily its customers. During this period, the bank management realized that the distrust of its primarily stakeholders was a key threat to its survival. Consequently, after admitting past mistakes and envisioning the future for building a new sustainable RBS, the next step of the bank’s executive management was to focus its strategic development on finding out as what one of the interviewees described as exiting *black holes* in the organization then orchestrating existing resources to initiate activities supporting the development of sustainability banking capabilities.

5.5.3 Transformations in process-based micro-foundations

Responsive modification

Making the first steps to recovery was by far not a straightforward way for RBS. On organizational level, the large number of institutional pressures led to a process of responsive modification in the way the bank was revising and planning how to rebuild previously entrenched unsustainable organizational practices and routines. It involved substantial changes in internal processes such as prioritization of stakeholders, management of organizational risks and uncertainties as well as building a connection across the organizational divisions and multiple businesses. During this period the organizational processes were focused on the organizational survival and the idea of rebuilding the financial sustainability of the bank.

A major event, which stimulated the restructuring process, was the initiation of the group level Strategic Review by the company's new chief executive in November, 2008. The purpose of this initiative was to review the operations of the various divisions in the bank by combining various sets of information and to identify any controversial unsustainable practices and formulate organizational problems. Thus, it intended also to drive substantial cultural, managerial and processual changes across the bank's various businesses and to ensure RBS is repairing its financial stability, customers' trust and any past mistakes that weakened the banking group (internal document; RBS Internal Magazine, 2009).

The first steps included the identification and categorization of issues that the management of the bank should focus their actions on. The formulation of the problem and designing future goals was relatively a challenging objective for the new management of the group as it involved a revision of large scale of operations and a prioritization of practices. However, according to a number of interviewees from October 2008 when UK government announced its banking support package until February 2009 when the results of the strategic review were announced, there were almost no changes in terms of practices or strategic planning mainly due to the chaotic environment and the fast speed in which issues were unfolding.

In February 2009 the results of the Strategic Review were announced uncovering a track of catastrophic mistakes in the past. On the financial pillar of business sustainability, a major drawback in the way the bank has been managing operational and financial funding and liquidity risks was detected; while on the social pillar of sustainability, a failure to meet the expectations of key stakeholder groups such as customers, employees and shareholders was unveiled (informal discussions, annual report and accounts, 2008, 2009; AGM 2009 transcript). These previous mistakes led to a reputational loss and stakeholders' mistrust.

Based on the information-gathering process as part of the Strategic Review, the function and the focus of the management were centred towards the task of increasing the "*profile of sustainability*" *(*Annual Report and Accounts, 2009, p.44) while reducing the levels of risk across the bank's business operations. As almost an immediate response, the changes in the bank started with strengthening the bank's capital reserves and financial pillar through significant reduction of managers' remuneration of the group's employees and a revision of the group's reward framework mainly as a result of increasing external social and regulatory pressures. However, besides these immediate changes in the reward and remuneration policies[6] of the bank's senior management, the identification and the management of other potentially unsustainable practices, in particular those related to the risk and stakeholder management practices was a challenging process which did not have an immediate effect. According to a number of interviewees, the major change of management and the lack of accountability from previous senior managers who left the bank almost immediately after the start of the financial crisis in 2008 created a momentum of internal organizational uncertainty and anger across the bank, which was further roused by the unfriendly public reactions and scrutiny. In this vein one of the respondents shared:

> *"I believe things started to unpack after the results if the strategic review were announced. It took some time mainly due to the scale of RBS operations and the lack of accountability from the previous people in the leadership who left*

[6] As part of the new changes in the remuneration policy that the bank's management introduced as a result of the internal Strategic Review and the bank's consultation with shareholders, UK government, external consulting bodies (e.g. Pricewaterhouse Coopers LLP), the group's board of directors, executives worldwide were deferred increase in payment or collection of bonuses.

the bank almost immediately. The new chief needed time to catch up, also many employees were quite sceptical and reluctant to the endorsed changes"(SM 9).

He continued highlighting the fact that the main challenge was in the communication and coordination of new practices and ideas oriented towards the bank's transformation into a sustainable bank.

> *"The process of identifying what went wrong and where we made mistakes was not a difficult process in 2009. Basically everything was wrong (laugh), maybe knowing that was the easiest part that actually helped us to make certain decisions. However, the challenge was in coordinating and communicating these decisions and why their implementation is a key for our survival and long-term sustainability" (SM 9)*

As the above narrative indicates the processes of operating the changes and establishing legitimacy of the strategic plan towards business sustainability across the bank were challenging (observations; informal conversations). In that period the executive management of the organization understood that in order to build a sustainable bank, it should consider not only the process of building a healthy balance sheet through the development of rigid monitoring processes but also the role of social and environmental risk factors. However, besides this realization, their capability to initiate changes in day-to-day practices was still limited in this period mainly because of the lack of enough financial resources. Although the managers became aware of a number of problems at the time, the priority was on restoring the financial sustainability of the bank internally. In this vein, one of the interviewees explained the complexity of the decision-making.

> *"Our hands were tied up; though we made a serious strategic decision to become a sustainable bank in every aspect of our operations in practice our abilities were pretty limited in the beginning of this journey. We had serious liquidity problems and the regulators basically forced us to sell a lot of assets. We needed to rebuild the financial stability of the bank first and then anything else" (SM 9).*

Next narrative reveals even more the inhibiting impact of the social distrust that members of the organization were facing and its constraining impact on managers' practices. What these quotes depicted is that most of the members of the organization lost confidence in their own capability to perform day-to-day obligations.

"People did not believe us for what we do…people were asking why are they doing that…they are a bank they should be doing that instead. This was a really frustrating period because you feel hopeless and powerless; you do not know what to do" (SM 26).

The following emotional extracts from the narratives of some of the interviewees describe the distress which occupied the organization and blocked managerial confidence in practicing existing routines as well as initiating new activities for rebuilding institutional relationships with various stakeholders internally and externally.

"I remember that morning when the share price dropped so significantly for first time in the whole history of RBS (pause). We had the group morning meeting; this was the quietest meeting ever, everyone was salient. It was such a shock; everyone was down and not sure whether they will be here tomorrow. The group executives did not know what to say either, everyone was gutted. In the next weeks we just sat and watched really we did not know what to do. RBS name was under lots of public scrutiny" (SM 5).

Similarly, another respondent shared:

This caused a real trauma in the organization and in our daily activities. Suddenly, you did not know what to do, whether you should keep up with the job routines, whether to wait or just leave…and many of us decided to leave…it seemed pointless to do anything because we lost our social status, it was just a matter of time to get even worse, and it did eventually (SM 3)

Another narrative story provides even stronger evidence for the impact of the institutional level pressures on managerial decision to analyse its cognitive and behavioural approach in managing its institutional relationships both internally and externally.

"In 2009 RBS was absolutely despised by the British government and a few examples of just how hated we were. Christmas that year there was quite a heavy snow in central London members of the public started throwing snow on RBS staff working in and out the RBS headquarters. This is just an example of the hate and at the same time they were attracting a lot of environmental protests, quite often in Bishopsgate there were oil and gas protesters and on one occasion they managed to pass the security and break in. You know there were much more protesters than security and actually they managed to get into the trading floor and glued their hands on screens with

super glue…they could not remove them without removing the screens. This made an important point that was that management of the bank became aware of the bad reputation and that a significant part of that bad reputation was so to do with their practices towards the stakeholders and the environment. Therefore, a natural thing was for the management to push sustainability. That's by no means meant that was the only reason….at the time standards were improving, it was a combination of several factors. (SM 12)

Similar feelings can be detected from another interviewee who expressed his frustration of the media's negative coverage and how it inhibited the ability to interpret existing practices and to take an adequate response.

"People were hiding even when having a glass of wine during group events. The media was waiting for everything, which was a RBS-related headline. We were the eye of the financial storm. We could not do anything; it was like you are having a stage fever. And that was the case for many of us, even those who have been here for long time" (SM 18).

According to a number of formal and informal conversations with managers as well as employees across the group it became obvious that due to the high degree of institutional dynamism in the industry as well as the internal insecurity and instability, most of the people working in the bank except the bank's senior management were relatively unenthusiastic about thinking how to create a sustainable bank which is not only financially sustainable but also one that is aligned with social and environmental risks. The following excerpt from an interview with one of the senior managers elucidates the internal dynamics at the time, stressing the low level of organizational morale during the period and its constraining effect on the processes of legitimizing and engaging various divisions and functions of the group with the new strategic direction of the bank.

"You know 2008-2009 it was a really low point. Morale was so terrible. People did not know whether the bank would survive or when they would need to leave their job. And also most projects the people were working on had a 12 months' time horizon. But you know if you do not know how life will look like in 6 month time why bother to work on a project that will take 6 months to complete so for most people morale was really quite low at that point in time" (SM 17).

As a result of the strategic review, the senior management of the organization became aware of the impeding effect of the size of the bank and its functional heterogeneity had on executing organizational level change towards sustainability. Moreover, due to the maturity of the bank, namely its long tradition in following Fred Goodwin's approach of management, it was taking longer time for some of the senior managers to unlearn past procedures and operational techniques, a part of the sales focused culture in the past. A conversation with one of the interviewees revealed this challenge.

> *"Many of us did not realize how trapped we were in a particular way of doing things until the crisis. Now people complain about the old practices but the truth is that it takes time to stop doing and thinking in the old ways. Many will deny this you see…but I personally… if I need to be honest, I felt frustrated with the fact that we had to change the way we were evaluating risk for example, even the fact that I had much less pressures to compete and get to the targets. It is funny, isn't it?" (SM 8)*

One of the managers explained that though *"restructuring and increased awareness was obvious in the time during the crisis but the changes needed more time to be initiated across the operational levels" (SM 17).* A part of the issue was that for most of the managers who have been in the organization for a number of years this was the only culture and environment they have been exposed to. One of the interviewees stated:

> *"I joined the bank when I was junior and then went up…but as a junior person that was the only culture that I knew, only when I left the bank I recognized the bad culture in which I was working. Actually that is not completely true; sometimes when you needed a model to get approved you needed the approval of other bankers so it does not need a lot of effort to see that sometimes that was an inherently conflicting situation. So sometimes at the time I could see that some practices did not make sense but only later when I left the bank I realized that it was crazy" (SM 16)*

The changes in the norms of what is acceptable in terms of managing financial, social or environmental risks was undoubtedly a shocking and paralyzing process for many of the organizational members across the banking group. Thus, besides the fact that on the managerial level most of the division managers seemed to be aware of the meaning of sustainability that the executive team wanted to embed in the organization, confusion was not absent across the operational levels of the organization (interviews; observations).

> *"People in the top of the organization we were aware that we should but it took 2 years to get embedded across the organization so I would say it started to have an impact after 2010 the earliest" (SM 18).*

In particular, confusion occurred in regards to the differences with the previous connotation of corporate social responsibility that the group was referring to. In an informal discussion, one of the company's employees stated: *"I think this was a decision that the management had… a lot of other companies have exchanged their names from CSR to sustainability….but I do not know why this decision was made personally; I think it was [name anonymized] who initiated this decision"*. For many members of the organization, it was still difficult to understand the strategic value of becoming a sustainable organization which is not only financially sustainable but also being able to maintain positive institutional relations with its primary stakeholder groups, namely its customers and shareholders (SM 9; SM11; SM18).

A number of conversations with employees during my visits in the bank as well as the interviews with senior managers who have been working in the bank for a number of years and have often served for different functions in the organization during the observed timeline revealed a number of challenges for promoting inter-organizational collaboration for restoring the bank's reputation. The main reason for that included the substantial size of RBS, the diverse character of its functions and divisions as well as the degree of personnel turnover at the time during the economic downturn.

> *"It was very difficult to understand the problems and to manage the bank because it is such a large organization. People do not identify with I work with RBS or I work for Goldman Sacks, they do identify in a very broad sense, but they identify themselves with a particular department, as banks are built as collections of specialized functions, everyone identifies to a particular function and division so everything that happens is someone else's fault" (SM 21).*

Another interviewee pointed out that often such differences have an impeding effect on the process of building the common cultural identity.

> *"Another issue was that one team that has very specialized capabilities could come up with a creative idea but there was some kind of difficulty in other teams having the capability to take that on board" (SM 7).*

He continued stating that the key difference can be found in the very different nature of people's job functions in the organization, which are not only limited to the case of RBS but in fact are a common challenge for most of the financial service organizations.

> *"But this is an issue that every bank has because people have fundamentally different skills for example the people who are building risk models are usually statisticians, mathematicians who are very technical people. Then you have the other teams which cannot really understand the techy models so this is not new to RBS, name any kind of financial services business they will have these problems" (SM 7).*

A similar point of view was raised by another interviewee who explained that the complex structural functions in the bank and the dynamics in the bank's turnover challenged the processes of building an organizational environment within the different functional team where past mistakes are discussed openly and new creative ideas for re-engaging with stakeholders and rebuilding its institutional relationships are generated.

> *"Most banks are not built for people to talk to each other; they are constrained by the specific nature of their functions but also the fact that we have had lots of new people joining and others leaving" (SM 13).*

In similar vein, during one of my visits in the bank's headquarters in an informal discussion, one of the bank's managers used a metaphor of a *fast speed train* to describe the rapidly changing environment in the bank and the personnel turnover at the time. Referring to RBS management turnover, he explained that as the train stops on different train stations and while there are people who get off on one station, some get on that station but there are also others like himself who continue their journey by the train but they may just need to change their seat.

Consequently to the overall complexity in the functions of the bank, the rapid structural changes internally and the fear of survival resulted in a reactive behaviour of organizational members rather than a proactive sprit for the initiation of organizational processes aligned with the core values of sustainable banking. This observation was verified by the narrative of one of the interviewees. He explained:

> *"During the crisis we were not even informed of course nobody expected this to continue but most of the things became silent, even within our practices (pause). Because you had new people, who did not fully understand the changes, where the problems were, they needed time to adjust and also you had people like us who have been working here in the last 10 years but also needed time to adjust to the pressures and make sense of what was happening" (SM 9).*

Further, he unveiled the lack of crisis management techniques for changing stakeholders' perceptions of the bank and coping with the uncertainty.

> *"In the heart of the financial crisis 2007-2009, we did not have any crisis management techniques; we kept silent, because there was no point of doing anything" (SM 9).*

However, besides the restructuring plan that the new executive team initiated in the beginning of this period and their attempt to change dysfunctional habits in various parts of the organization, the data suggested that the executive team was often unsecure and resistant to be first in the industry to introduce a certain practice or product related to the sustainability agenda. A senior manager shares his experience from the attitude of the executive team.

> *"He used this interesting phrase which was just to brain me a bit: 'Just remember planers get the arrows, settlers get the land', so the first people to explore a new territory got shot and the winners are those behind them. So this was the kind of attitude" (SM 1).*

According to the respondent, one of the main reasons for this attitude in the executive team was the very turbulent and unsecure environment, marked with continuing stakeholder protests as well as the large scale of internal shift in culture that needed to be incited. The executive management needed time to examine the past behaviour of the bank and started to change unsustainable practices such as the risk management functions of the bank.

> *"Yes, in practical levels this closed a lot of things down. You start again with bringing up the speed the new executives with the issues you are working on and that take a lot of time and narrows brand new roles. I think this was the*

biggest issue for us as much as eighteen months delay before we could really move into the tournament" (SM 1).

In similar vein, one manager believed the insecurity in the executive team was mainly due to the stringent government policies that were occurring on a continuous basis.

"Not everything was smooth. There was insecurity as you can expect. On one side, it was the government and the regulatory pressures that we were facing and on the other hand was the people – inside but also outside the bank – the customers, the old and new coming employees" (SM 21).

Another interviewee explained further that during this period most of the changes in processes such as monitoring, designing as well as improving of system control mechanisms in different parts of the organisation were driven by the regulatory bodies.

"A lot of the processes such as monitoring, designing policies were driven by necessity and actually by regulation. So I think one thing that RBS had an issue and all banks had an issue was that their IT systems were shocking and this is mainly for an organization that has been going through a lot of acquisitions but were established in the early 1980s but have never been changed so the pressure to improve that came from (A) the financial crisis and (B) the regulation. Regulators basically got sick off banks coming and giving data but then 6 months later coming and saying we are sorry but the data that we actually gave you had mistakes in it and we actually need to change the data. Eventually the regulators got sick of this and pushed them to invest into the improvement of the system following stress testing, risk control…you know the regulator was pushing all of those. You know most of the things in 2008, 2009 until 2010 were pushed by the regulators, after 2010 RBS managers started to initiate new ideas themselves" (SM 14).

As demonstrated earlier in this section, during this stage of the sustainability-banking capability process, the new management of the bank started to realise the key issues in the previous practices of the bank, mainly the focus on financial profitability rather than financial, social and environmental sustainability evident through the lack of enough attention to stakeholder groups such as customers and employees (e.g. significant differences in the communication between the management and these stakeholder groups). However, the lack of enough financial resources as well as the high level of customer annoyance, leading to an unprecedented decline in the reputation of the general public, inhibited the ability of the senior management to invest substantially in practices leading to business sustainability. One of the respondents explained the managerial rationality and decision-making during this period.

> *"People would have thought it was a window-dressing activity. Therefore we decided to start the changes from within by making things simple – changing the strategy, making it simple, easy to understand both internally and externally. We started thinking about the ways through which we could connect back to the stakeholders, how we could balance their expectations" (SM 7).*

Across the group, the senior management was engaged with the task of revising their stakeholder priorities and balancing their interests. One of the interviewees explained the challenging task of deciding which stakeholder group has priority over rest of the groups. He explained that such decisions often involve conflicting arguments across the management team. However, often the end decision would depend on whether the strategic decision has short-term or long-term implications for the company. In the case of short-term gains, investors are considered the most important one, while long-term sustainability cannot be achieved if customers and employees are simply ignored.

> *"It is a hard work; there was an issue when you bring them together conflicting views so how do you balance it. But that really is the job of the chief executive and the management of the company; it is to balance multiple stakeholder groups. Sometimes is investor against employees can be difficult to balance, so you have the whole time engaging the executive making trade off decisions. Prioritization of stakeholders would depend on decisions especially in the long-run, because if you think only about short-term, our investors would be the most important but with this you risk ignoring the manufacturers, the customers, you always need to harvest the customers! It is for investor interest actually and also for customers interest" (SM 6).*

According to the interview, often the perception of the senior managers where the priority should be seems to have been defined by the professional background of the individual and his specific job specifications. This understanding is highlighted in the following quote by one of the interviewees.

“Rethinking the priorities and our own incentives to work was a challenging process. You know depending on where you come from, you kind of have a different vision of what those should be. In the beginning of the crisis there was a lot of uncertainty” (SM 17).

He emphasised further the different understandings across the group in terms of strategic stakeholder priority by giving an example with the human resource function of the bank, where the priority has been mostly on the employees. However, what has changed after the global financial crisis is the refocusing of how a certain target has been accomplished through teamwork and transparency rather than what has been accomplished.

“In HR, the priority has been always on the employees. However, I guess what changed is the lens through which we look at them. For example, before the emphasis was more on the performance evaluation framework and its various extensions. There was a stringent ranking system in terms of the individual sales performance, putting too many pressures on senior managers who were putting pressures on the middle managers leading to a contaminated culture across the floor. Everyone was caring for their personal survival rather than the collective. Now two years after, there is much more focus on increasing the collective commitment as well as the importance of the individual for creating value to the bank and the rest of the stakeholders in a transparent manner” (SM 17).

During this period, there were some suggestions for a certain willingness on behalf of some managers to detach themselves from the overall corporate objectives of the bank by thinking first and acting in accordance with functional-level objectives. Such behavioural patterns surfaced mainly in relation to the relationship that particular functions and divisions of the bank had with their primarily stakeholder groups. One informant reported that to a large extent the reason for this internal complication was due to the size and the scope of the bank.

“RBS is, was a huge organisation, maybe not that much anymore. You understand that though we tried to repair the reputation of the bank as a group many of the bank’s separate departments and even different units were thinking first about their own reputation to their direct stakeholders and afterwards about the rest” (SM 10).

Referring to this issue, the interviewee said:

"I remember when we needed to chart the new plan in the team. There were a lot of arguments what the future should be. Most of us thought employees were key stakeholders you see just because we are in (department anonymized)….but there was on the other hand the pressure for rebuilding the financial stability of the bank, shrinking the time-bomb on the balance sheet. Government, investors, creditors were the key during the survival times…but also we were trying to place customers' needs in the centre of our strategy. Indeed, it was the complexity of things and also the insecurity to take action. If before people were more happy to lead an initiative, during that time many people, whoever was still there… during the crisis people were less eager to do so. Nobody wanted to be pointed if something went wrong" (SM 10).

The above narratives give a hint about the emotions and the disengagement of some groups across the bank, which was a result mainly by internal confusion within the organization and responsive (reactive) modifications of practices across the bank. Similar example is demonstrated in the following quote.

"The marketing function is very much in line with the primarily vision of any company, it aims to convey the priorities of the bank and where the bank wants to be in terms of markets. Before the message was very much directed from above, it was the shareholders, the investors that matter the most. So you would have seen much more communications directed towards the investors. During the crisis, it was a hard time for our department as the budget shrank we stopped investing heavily on advertising and other communication channels. So we kept more silent in this period than anything. We just have our 'That is Home' in Edinburgh Airport. When we started this campaign, the objective was really directed to our investors, as the airport is a hub and you have a lot of passing investors, fund managers etc., then we decided to reposition it to align with the emerging customer-centred focus of the bank." (SM 25).

He further asserted:

"The communication and marketing functions follow somehow a 'chameleon' strategy if I can call it in this way, they follow the corporate logic, if the logic changes then we switch the practice, if you understand what I mean….When the new CEO was appointed during the crisis in the beginning all the energy was focused on repairing the balance sheet for obvious reasons, if we did not do so, the next day there was no point coming to work. Since then, we have started to focus more on internal branding and communication" (SM 25)

A reason for this was the fact that in the beginning the executive management was quite resilient to put more emphasis on one group over another. They needed time to accumulate enough feedback from stakeholders before initiating relevant practices. Such connotations are detected in the external reporting of the bank.

> *Stakeholder engagement is not just about listening; it is about using feedback to help improve our business (Annual Report, 2009, p. 12).*

According to the data besides the very turbulent environment entailing pressures from various stakeholder groups, a reason for the lack of a particular emphasis on one group of stakeholders over others such as customers which in the later phase of capability development became the focus of the bank's management was also the embedded from the past international focus of the bank's corporate strategy.

The following quote from the company's chief executive external messages to the media illustrates also the continuing international aspirations of the bank.

> *"I have every confidence that RBS will continue to be a very international bank, with very strong presences internationally and that RBS would continue to have a spread of operations around the world"* (Stephen Hester, CEO for Financial Times, 13 October, 2008).

Overall, the data suggests that during the period, the bank's senior management decided to place sustainability in the centre of its operations, communication and coordination processes. This required identification of unsustainable processes and practices, their reformulation and reinterpretations of individual organizational teams' understanding of sustainability. The diversity in previous practices such as prioritization of stakeholders, as well as the insecurity and frustration across the bank resulting from the lack of trust across the sector inhibited the organizational assimilation of what a sustainable bank is. In addition, the lack of crisis management techniques previously in the bank was another factor, which contributed to the lack of alignment and coherence between the changes that were occurring on structure level and the capability learning process.

The next section discusses the transformations, which occurred in the structure-based micro-foundations of sustainability-banking capability during the period of intense institutional pressures.

5.5.4 Transformations in structure-based micro-foundations

'Inward' Integration

"It was like turning the Titanic" (SM 25).

The above allegory of turning the Titanic summarizes the pervasive scale of restructuring that RBS undertook during the 2008-2009 period. During this period, the attention of the bank's management was on internal restructuring with the aim to result in "inward integration". In order to accomplish the "*twin tasks of building a sustainable bank while recovering from the tough times*" the group undertook one of the largest structural transformations in its history (RBS World, 2012).

Two main structural changes involved in the process of inward integration – 1) simplification to achieve financial sustainability and 2) integration of the sustainability agenda in the corporate governance structure of the bank.

Simplification of the group's strategy became a priority of the group's executives after the Strategic Review of the bank was completed under the direction of Stephen Hester in 2008, and a variety of risky assets (e.g. banking products, trades, deals, portfolios, businesses owed in emerging market countries) were discovered across the group.

In this regard one of the interviewees revealed, *"the executives realized that they need to simplify the strategy, so it is easy to manage and everyone knows exactly what he is accountable for"* (SM 9). During this period, expectedly the data shows that the attention in the organization was on internal restructuring and the balance sheet of the organization as well as its internal stakeholders. This is exemplified with the opinion of one of the interviewees. According to him, it can be assumed that 80% of the organizational attention was focusing on calculating and paying the losses of the bank.

> *"As in every bank you have several levels of governance. You have a committee on executive level, reporting on support level. In the time I was there until 2010, to me the only thing that was presented on the board on every committee was basically – would the bank survive? So they were in the period 2007, 2008, 2009 period they were looking at the rate of loss of RBS assets, the capital reserve, looking at how they can raise additional capital, additional*

liquidity which turned out to be from government. And at that time, this took around 80% of their attention. After that from 2009 the thing that took most of their attention was restructuring. So upon the point survival was the issue that was the most important, focusing on internal integrating. Afterwards, at the end of 2010 later in 2011, they started to think more of what we want to become" (SM 12).

Thus, to enable financial stability, the management decided the bank's operations to be divided into a Core and a Non-Core division. The former was needed to manage the profitable assets of the bank, while the latter was assigned responsible for the management of all of the group's assets, £258 billion, which are not in line with the strategic objectives of the bank (RBS Internal Magazine, 2008; RBS World, 2012). They are currently managed as a part of the group's Restructuring and Risk with the primary objective to be removed almost entirely by the end of 2015 (Internal Documents). By isolating the debt assets of the bank into a separate division, the management team was trying to rebuild its financial stability. The profits from core businesses were used to help absorb the losses from the Non-Core division. Around 30 people from multiple parts of the organization are involved in the programme to de-risk and simplify the business. According to one of the managers in RBS working in the International Business and portfolio division, the programme is *"the biggest example of teamwork I have ever come across in RBS"*.

The heads of restructuring and risk and the head of the non-core division and APS of the bank explained that half of journey to sustainability and stability could be achieved only if,the level of risk needed to be reduced and risk assets removed from the balance sheet. An interesting characteristic of the non-core division is that it is joined up with the rest of the group and everything is still managed as "one business". The division works with existing infrastructure rather than a new one. So although there is a structural division, there is no actual infrastructural division but rather small changes in the front-end business management and reporting lines (interviews, Internal documents).

According to one of the finance managers, such structural division was essential as it allowed internally the group to feel more secure and confident in the activities they were undertaking. He stated:

> *"Now there is a clear line, what was bad, what businesses were generating debt and what businesses the focus should be on. People feel more confident"(SM 16).*

A similar narrative is demonstrated also from the external view of financial editor, Sean Farrell, who has been working closely on reporting and covering the undertaken changes in RBS during the 2008-2009 period. In his view, the plan to divide the bank into core and non-core divisions is of a key importance for bringing back investor's confidence but most importantly the morale of the bank's staff.

> *"Splitting the bank into core and non-core divisions makes it clear to staff and investors what the bank is all about and shows how its continuing operations are performing".*

The strategic move allowed the personnel of the bank to feel that they are on the right path to building a sustainable bank. One of the managers in the non-core division used the analogy of a bomb to picture the situation in the bank after the introduction of the non-core division.

> *"The bomb can still blow up but it is not going to blow up the whole house apart anymore. It might make mess in the living room but it will not fundamentally take down the house" (SM 24).*

The second structural change, which the management incorporated, was the integration of the sustainability agenda in the corporate governance structure of the bank. The key objective of the executive team was to restructure the organization into a sustainable bank by changing its traditional governance structure into sustainability-informed governance.

> *"This is actually one of the main differences pre- and post- 2008, it is the structure really embedding sustainability from the top of the organization. You know sometimes it is good to do…but is it part of the fabric and this is a good statement of what we try to change and become" (SM 11).*

This happened with the inclusion of a Group Sustainability Committee with the very numerical and quantifiable committees forming the board of directors of the group. This happened with the help of a number of members of the sustainability team, who played a crucial mentoring role in shifting the old habits and shareholder logics across the organization. Figure 5.7 illustrates the new governance structure in 2008.

The formation of a Group Sustainability Committee enhanced the process of developing sustainability banking capabilities as they facilitated the assimilation of newly introduced activities underlying the five strategic sustainability themes which the bank initiated (e.g. fair banking, supporting enterprise, employee engagement, safety and security and global citizenship).

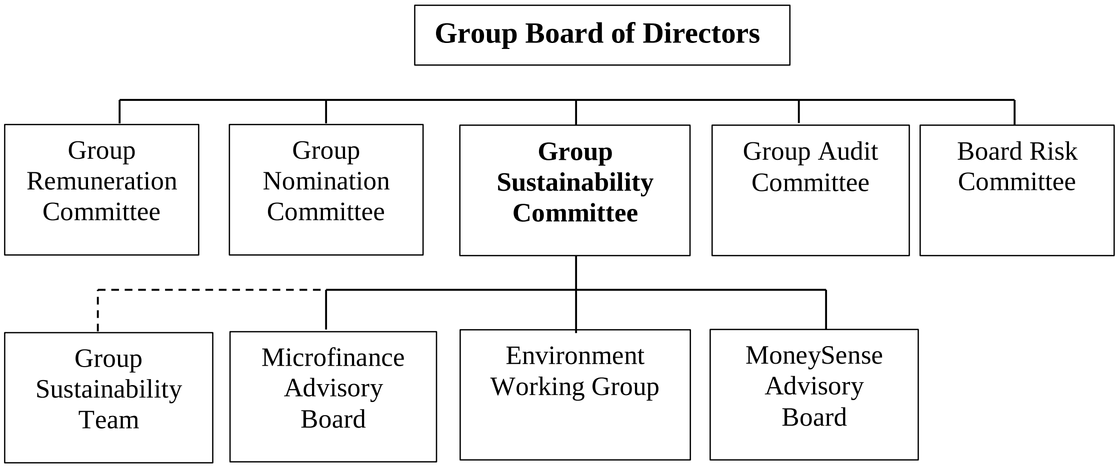


Figure 5.7: RBS Group Governance Structure (2008-2009)

Source: RBS Group Annual Report and Accounts 2009; Sustainability Report 2009

The committee itself consisted of research and teaching expertise in four key areas – micro –financing, environment, moneysense advisory board, engaged with the internal training of advisors who can provide impartial money guidance to customers (internal documents). The group sustainability team had an overarching role, in assessing the areas of current engagement with stakeholders across the group, suggested areas that need improvement as well as such that needs to be discontinued.

> *"It is a good question. The external uncertainty there is no way to manage it, just being very flexible, and the world is changing a number of times. In corporate terms in the last five years we just need to adapt. For sustainability, there was a lot of restructuring and changes, I hired a lot of new people to look after different tasks, I was looking for quite different skill sets, looking for people with more broader public affairs skills used to getting involved in discussions with government, policy issues and that kind of thing, and people who really understand business too. Sustainability team have to help business to work" (SM 1).*

In this stage, the inclusion of a sustainability committee had also a signalling role across the organizational layers of the bank. It not only communicated the changes that the senior management was trying to incorporate in the various functions of the bank but it also acted as a knowledge-source for future strategic initiatives. An important factor was the experience of a number of people in the sustainability team who have been working for the bank as early as the development of the first corporate social responsible function. The data suggests that internally the sustainability team had a lot of respect within the organization, as many employees believed that the team represents their views. There was an internal belief that the sustainability team acted as a "*representative internal of diverse internal voice*" for the rest of the employees in the bank. This gave more internal confidence across the employees that their views can be not only represented but also they can participate and influence the broader strategic agenda of the bank. Several quotes exemplify this outlook in the bank.

> *"The guy [anonymized] who runs their sustainability team is much more respected than the equivalent guys in other British banks. I think this has played a role… If you compare RBS to other banks like Barclay's there is a view that they have become that, they have developed better expertise and they are taking more seriously sustainability related issue" (SM 16).*

In similar vein, the following quote suggests the supporting role of the sustainability team.

> *"The only place of the organization where it could have emanated from are the most senior levels – the board of the executives and the sustainability specialists because the wider organization – the banking the risk management team simply would not be in position to initiate the conversations themselves so the only place it could come from are the* ***senior management and the more sustainability people they hired****. I think the role of other teams initially was quite passive so they were receiving information from the specialists and in various cases probably not paying attention to that. But over time absorbing this and becoming more proactive and ultimately as it gets more embedded the role of other teams is either to provide more data or to take part in the restructuring that were needed to be sustainable. The data one is the key because if you are going to actually commit to environmental impact you need a lot of data from lots of different bits of the organization. Even simple staff, as part of their work for example how much air travel they are doing as a part of their business. And the way many organizations are trying to do that is they try to link it to their expenses*

process. People need to give you enough information and they need to move that data to make certain assumptions on the amount of CO_2 per kilometre travel, the amount of CO_2 per mile on travel and then work out the impact so you need to have a designed finance function for that for instance and you have to learn how to apply some of those assumptions to take expenses data and turn it into environmental data" (SM 4).

Overall, the undertaken change in the organizational structure of the bank during this period helped the internal integration of the sustainability agenda into the business model of the bank.

The next phase of the development of sustainability banking capabilities started in 2010 and it is still continuing. However, for the timescale of this thesis, the transformations in the micro-foundations of the explored sustainability-banking capability are observed until the end of 2012. The next section presents the empirical findings for this period.

5.6 Phase Three: The stakeholder co-creation route in times of moderate uncertainty (from 2010 to 2012)

The most recent stage in the development of sustainability-banking capabilities at RBS can be described as a stakeholder co-creation phase. Whereas the earlier evolution of sustainability-banking capabilities can be characterised as internally focused, the last phase involved a broader set of internal and external stakeholders.

The below fictional anecdote from an internal competition in RBS pictures the executive, Stephen Hester in the new third phase of capability development which the bank entered following the restructuring during the second period. The metaphorical comparisons of *"Dinner. Fish Fingers", "He loved fish fingers"* symbolize the simplification of the bank's strategy.

Worldview

He looked down at the new world he had created; chest swelled with satisfaction. It was an improvement of the last one. No liars on this one, no villainous crooks. From the edge of the universe a gentle call: "Dinner. Fish Fingers." He dropped his little spade, left the sandbox happy. He loved fish fingers. (Anecdote 4 from RBS 55 Fiction competition, Author (anonymized), RBS Internal Magazine, 2012, p.21)

In this phase of capability development, the pressures in the institutional environment were perceived as relatively moderate from the bank's management. During this stage an alignment between the individual level, process level and structure level micro-foundations started to occur which allowed the function and the form of the studied sustainability-banking capability to resemble that of a dynamic capability. Next sections discuss the occurring transformations in the individual-based micro-foundations.

5.6.1 Transformations in individual-based micro-foundations

Shared sense-building

In contrast to the first two phases where the corporate social responsibility and sustainability constructs respectively had mainly a metaphorical meaning in the organization through their operational application and organizational attention on financial returns, in the third phase of capability development, the managerial attention started to be focused more on the long-term sustainable development of the bank. A number of narratives from the data illustrate these changes in the direction.

> *"Before 2007, the focus on RBS was not on financial sustainability. It was on financial returns. From 2007 to 2010, then the focus was on financial sustainability, and I think after that the focus has widen to include things like environmental or social sustainability to become more engaged with stakeholders" (SM 5).*

This can be detected also from the following account of one of the interviewees.

> *"Up until 2010-2011, the bank really did not think more than 2 years ahead by the time they got up and survived they started to think more in the long term, which then means that financial, social and environmental sustainability becomes more closely aligned" (SM 17).*

During the third phase of capability development, directed from the results from the conducted Strategic Review in the 2008-2009 period, RBS management focused on improving its internal and external stakeholder relationships by the creation of strategic unity about sustainability across the bank. As one of the interviewees explained, *"the focus was not top-down as before but there was an emphasis on shared learning, learning from each other" (SM 10).*

The leadership of Stephen Hester was crucial for the process- and structure-based changes that took place at RBS throughout the third phase of capability development. In particular, the participative form of leadership and the serving mentality of the new executive encouraged a change in the motivation and a breakthrough of the existing cognitive inertia across the group. This was mainly achieved through an open communication approach.

The findings suggest that another differentiating factor between Fred Goodwin and the new executive is namely the ability of Stephen Hester to share openly his uncertainty, hesitation and lack of confidence or knowledge with the rest of the leadership team. Such behavioural characteristics seemed to establish trust between him and the bank's management. The honest approach of the executive is evident from the following narratives.

> *"You cannot be confident about something that you do not know. By definition there can be uncertainties. But generally as I said earlier, we're highly supportive of the direction of regulatory change"* (Stephen Hester, transcripts from meeting 2010).
>
> *"I am hesitant to give advice because I am not sure I do things better than anyone else"* (Stephen Hester's talk with group of RBS Ambassadors, April, 2012).

One of the interviewees shared that in his point of view every executive tends to have what he called "tricks" or approach to business. According to him, the new executive had a significantly different approach from the previous executive oriented towards the simplification of the business.

> *"You have Stephen Hester type of CEO which tries to streamline the business try to find out what is valuable and cut out all the other crap. But most of them know only how to do one trick. Fred Goodwin trick was RBS merger with NatWest" (SM 24).*

According to a number of interviewees the ability of Stephen Hester to built and rebuilt social ties with managers and employees across the group influenced the attention that he paid to different sustainability-related issues. In relation to this, one of the interviewees stated:

"In contrast to Fred, Stephen understands the value of making friends across the organization. He often says that pure face-to-face communication is the best cure for the crisis" (SM 3).

Another respondent shared a similar view about the role of the bank's executive approach in encouraging responsibility in various levels of the organization.

"Nurturing transformational leadership from within has been the main objective of the new executive. I find it quite successful…yes in the beginning it was frustrating, as many people were not used to experiment and play with the unknowns" (SM 11).

The data suggests that an emphasis was placed on creating a common vision across the organization through a continuous introspection, which the executive was trying to incite across the bank. In contrast to the past when the management used to rely heavily on external consultants as knowledge sources, during this phase the emphasis was on internal knowledge building, enabled by the participative leadership style of the executive.

This was mainly through sustainability-oriented workshops, conferences and open discussions with the bank's primary stakeholder groups, which were organized through the Sustainability function (participant observation, diary notes). During such internal conferences, employees as well as various stakeholder groups could ask questions, brainstorm and discuss ideas about the sustainable future of the bank together with the board of directors. An example for such conference is the first largest in its scale RBS internal Sustainability conference that took place in December 2012 in London (participant observation).

In contrast to the internal focus of the "Your questions" event which took place in 2008 where the chief executive together with the head of the non-core division and the head of the restructuring of the bank aimed to clarify for the bank's employees regarding the future organizational changes in RBS, the 2012 conference aimed to build a shared sense across both external and internal stakeholders. Key participants in the conference in 2012 were the group's executive team, heads of various functional groups and divisions, including heads of some of the group's international businesses (e.g. RBS business in India), employees, fund managers, NGOs and customers. Based on the informal conversations during the event as well as the discussions with the executives, it was apparent that the purpose of the event was to generate an understanding about the different perceptions that different groups had, to share successful examples from different parts of the organization as well as to charter the next steps in RBS strategic intent to become a 'sustainable' bank.

This enabled an *internal but also external brainstorming* of the identity of the bank and how they should change rather than to rely on professional consultancy groups. Participants referred to the event with different names but mostly they used expressions such as "*idea generator*", "*brainstorming exercise*" and "*building a shared common sense*" (diary notes, participant observation). According to one of the participants "*disseminating our own and our stakeholder narrative stories enable us to connect but also to introspectively assess and learn from past practices and mistakes*".

The conference provoked learning by connection across levels of the bank but also a cultural awareness and a shared belief about the importance of implementing the sustainability agenda in the core business of the bank. Although a number of topics were discussed during the conference (e.g. the reasons for the crisis, the steps implemented for the time being), in particular a great emphasis was placed on clarifying the responsibilities of the bank, and discussing how the organizational culture should be changed to become more sustainable.

As part of the debate, the Sustainability team presented their view in front of the executives and the stakeholders as layers of responsibility, a result of what the team called a "*10 year slow learning experience*". The team stressed the importance to mainstream sustainability rather than taking it as an "*organizational cliché*". They saw this in focusing on four layers of responsibility – business ethics (legal, compliance, financial solvency), financial plumbing (transactions/ moving money securely and efficiently), acting as an engine of the economy (putting savings and capital to work) and shaping the world we are in. All of these four layers bounded to the vision of serving customers first. When discussing and arguing where the priorities should be, most of the participants agreed that there is a need for more strategic, long-term planning focusing on the first three layers primarily. A number of senior managers shared their concern that more emphasis should be placed on rebuilding the foundations, the code of conduct of the bank rather than increasing the volume of codified documents. One of them stated: "*We need to build the culture of conduct. In the early days of the financial crisis, it was you need to get your policies right, but now it is not about the policies it is about the actual knowledge of the people internally and externally about these policies".*

Statements confessing the previous mistakes of the organization towards customers were often a part of the discourse of the executives. Such expressions seemed to assist in building an understanding on behalf of the stakeholders.

> *"In the past we have been selling out of the need of the customers, we have done very poor job on this. What we need to do is a fantastic job over customers. It is how we coach them, we have made a lot of changes in terms of wages etc…..but it takes time to change behaviour" (SM 18)*

In similar vein, another managers stated:

> *"The mistake was that the bank valued the customers the least. We forgot that we are in business because of them. We used to use language, which was sophisticated, and very hard to understand just for the purpose of selling unnecessary PPI products to customers. We are working on changing that. A big deal of the strategy has been on communicating the centrality that customers play for the business by developing such narrative. I believe such events [referring to the Sustainability Conference] really help to come together with the stakeholders to brainstorm and to agree on the basics" (SM 6).*

> *"I think it is again to the customers, maybe for a very long time we took the customers as granted. It is not a question whether we make money but whether we make too much money" (SM 19).*

Furthermore, another emerging narrative theme during the conference was the idea that sustainability should become a synonym of RBS culture. In the view of the executives, RBS has the chance to become a leader in sustainable, customer-centred banking by adapting a narrative approach. The following views of the bank's senior managers picture these inspirations.

> *"One will be to enhance the ESR (Environment, Social, Risk), across the organization. We need to turn out into walking peasants. We need to make*

everyone in RBS to react to things that are wrong. You need to become the immune system of the organization. This is how an organization change fast and profoundly" (SM 3).

Other examples of the managerial suggestion to use narrative stories as a way to rebuild the connection with key stakeholders are presented below.

"Shaping our narrative is important, constant communication of what we do, sharing the story of what we do" (SM 9)

In similar vein, one of the participants emphasized the importance of sharing internal narrative stories externally.

"We need to use more stories about what we are going to do, we need to push these stories around customers for the next five years" (SM 16).

In the words of a senior manager:

"We need to have the right message but also to keep the right actions" (SM 15).

In contrast to the second phase where the organizational fear resulting from the high turbulence, normative and regulatory pressures in the banking sector inhibited the managerial ability to recognize and invent action possibilities for sustainability, in this third phase, the senior managers started to make new identity claims by using various symbolic references such as 'new', 'fair' and 'sustainable' bank. Such statement is exemplified below.

"*RBS has been a bank in regards to selling etc...It has not been something special, was as special as other banks. We need to move RBS from "a" bank to "the" bank" (SM 20).*

Interestingly, the conversations during the sustainability conference and the data gathered during the interviews with senior management of the group revealed a new approach of thinking about sustainability which emerged in this third phase. In contrast to the second phase of capability building where the management aimed to communicate one single meaning and definition of sustainability across the organization, during the third phase they agreed on that there are multiple stakeholder parties with different even conflicting preferences and goals which often manifest in different practices (interviews, informal conversations).

As a result the objective of the management became to accommodate the different visions of a 'sustainable bank' by allowing ambiguity in the way people across the bank envision the concept but in the same time focusing on communicating the underlying issues associated with it. A common view of the managers is echoed in the following quote.

> *"People do not think about sustainability or CSR as a concept, they think quite a lot about the underlying issues. So, for example how we manage customer complaints but they are not able really to architecture this and to bring it necessary under sustainability. Health and well-being, diversity, people tend to think about managing issues, but not necessary thinking about the overall framework. But that is the job of my team to think" (SM 11).*

The comment below supports also this observation.

> *"It is not that much really important to try to make people think about what sustainability is, it is much more important to communicate the issues. People need to know what we do in terms of diversity for example; they need to know we are managing a carbon footprint, the view on risk. But they do not need particularly to know what it is precisely"(SM 2).*

Likewise other interviewees shared the view that due to the nature of the banking professions it is very hard to ensure all people are thinking the same thus enactment is more important.

> *"Within banking anyway most people's roles are very locked down…and it is not necessary people to know but to do it" (SM 23).*

Similar opinion was expressed by another manager.

> *"The problem is that different heads of different divisions have different opinions about what sustainable culture is and how we need to go about it…we decided we cannot expect or force the same interpretation, but what we need to do is to focus instead on making sure that everyone understands the issues related to sustainability, namely the need for transparency in stakeholder relationships and the social and environmental risks associated with achieved goals and pursuing business opportunities" (SM 1).*

Another manager stressed on the fact that such ambiguity around the meaning of sustainability is in fact beneficial for the bank as it allows revision of practices and faster adaptation to the demands of the stakeholders. He stated:

> *"We need to make sure people are aspired for RBS to transform to a sustainable bank. Their vision and approach to it can be different from one another but in fact this is good for the bank, it allows for continuous revision of our practices and getting rid of the wrong ones" (SM 9).*

The general view of the respondents was that the emphasis should be on having a shared sense of the issues of sustainability and agreeing on the basic code of conduct while having relatively ambiguous definition. According to the interviewees and the participants of the conference such approach enables flexibility and knowledge revision when necessary.

Together the findings in this section provide important insights into the occurring transformations in way the senior managers and in particular the chief executive perceived the meaning of sustainability-capability and charter new processual changes that they aimed to be implemented. The next section, therefore, moves on to discuss the changes in process-based micro- foundations of sustainability-banking capability.

5.6.2 Transformations in process-based micro-foundations

Aligned Initiation

In this phase, RBS adopted a relational approach to developing sustainability-banking capabilities. The data suggests that in contrast to his predecessor, Fred Goodwin, Stephen Hester placed an emphasis on developing a regional roots outlook of the bank which was much more appealing not only for the organization's external stakeholders but also internally for its personnel (informal conversations, interviews).

One of the first activities undertaken in support of the new approach was the revision of the bank's stakeholder list to include previously overlooked stakeholder groups. This move was mainly triggered by fears of continuing shifts in the industry as well as increasing pressure from affected customer and community groups. As one of the group's senior communication managers stated:

> *"We really truly try to listen and to ask as many stakeholders as possible. RBS is now very aware of its public ownership. In practice, we try to be responsible to society as a whole. This is a much broader challenge. We try to engage more people, such as NGOs and campaign groups. We have had more sessions and*

meetings with NGOs than in other years, and we are in closer contact with many of the interest groups" (SM 10).

The organization not only increased the number of stakeholders but the bank's management also signalled that certain stakeholder groups – especially employees and customers – would be made a higher priority. The development of sustainability-banking capabilities through this more relational approach was also evident in the shifts towards more open communication processes and active engagement with internal and external stakeholders across different levels. In contrast to the pre-crisis period, during which managers tended to make simple assumptions about the best path to take in terms of corporate engagement with customers and employees, the bank now focused on actual engagement and discussion, which allowed for the development of insightful knowledge about stakeholders' needs and their level of satisfaction.

In order to accelerate learning about customers' and employees' needs, a number of structural support mechanisms and practices were implemented such as a new voting-software system for customers and internal channels for employee feedback. With regards to the utilisation of some of these practices, a senior community affairs manager revealed:

"We experimented with different ways of easing the selection of local programmes in 2010. We had competent people, which formed a panel ... In this way, we had hundreds of panels. However, we felt that we could not reach the community very well or very objectively, as only a small part of the community was reached in this way. Therefore, in 2011, we invested in a new technology – a new online voting system. If the customer has a computer and the technology at home, he or she can give his or her opinion. In addition, due to our anti-discrimination rules, we needed to implement a second measure – a programme for people who cannot use the Internet or have other medical problem that prevent them from using the online voting system. Our capability and capacity have certainly improved "(SM 21).

These shifts towards a relational approach to engagement with various stakeholder groups were also accelerated through an increase in communication among managers representing different organizational divisions and departments. Learning and coaching both internally and externally became a key strategic activity for RBS. The following quote exemplifies such inspirations.

> *"It is about coaching, about the managers' relationship with employees and how they deal with customers, we need also to give managers time to do it, as usually they go for training and then they come again and do the same thing" (SM 7).*

Following its objective to enable communication, coordination and learning across various levels of the organizations, the bank introduced its RBS Ambassadors Programme. It is formed by a community of employees from various levels of the organization who are volunteering to act as ambassadors of ideas and opinions emerging across their local divisions or branches as well as intermediaries between the top management and the lower levels of management. According to the head of the programme, this initiative helps to "*influence opinions of people outside* and *inside the organization"*.

Besides differences in their roles in the organization, they are all united to renew the pride in the bank and rebuild its reputation –inside and outside. By connecting with each other through the specially launched in November 2011, Ambassadors' website, the Ambassadors of the bank can discuss important issues and learn from each other. Learning by connection is also realized through face-to-face meetings and events with the executives of the bank. The following narratives support this observation.

> *"As well as the online presence, there is regular email communication, learning sessions, webinars and town hall events where ambassadors can meet executives to discuss important issues face-to-face" (RBS Ambassador, Risk Management and Operations).*

The evidence presented below from the narratives of the head of the Ambassador's programme suggests the inspirations of RBS senior management to reconnect with its internal and external stakeholders.

> *"This is about being able to influence people by having the right information and getting access to senior people from within the organization who are close to the positive things RBS is doing"*.

According to a number of Ambassadors, such initiative has been a key for influencing and changing perceptions, improving the morale internally and shaping opinions externally.

"Ambassadors can help build pride in the organization by sharing good news about RBS with the people they work beside….Once we improve morale within the Bank we can then start to shift opinion outside."(RBS Ambassador, Human Relations).

Another example of the learning by connection approach in the bank during this period can be found in the partnership between RBS' NatWest and John Lewis retailer in the beginning of 2012 (RBS internal magazine, June 2012, p. 16.). In an Internet search for ideas on how to improve the customer relationship with the bank, NatWest's local CEO found about the unique approach of John Lewis in improving customer service, having won 11 awards for Customer Service within one year. As he became interested to learn about their successes, he decided to approach the retail and see what they could learn in terms of structure and customer service.

According to the executive, there was no point of approaching financial service organizations and learning from them as they did not have the relevant knowledge necessary to cope with the dynamic environment and the increased customer dissatisfaction across the financial service industry (interviews, observation). Soon after he contacted the retailer's executives, they scheduled a visit to one of their shop floors where they could observe and learn from their practices, improve NatWest's practices towards their customers and translate the best practices across the RBS group.

In relation to this initiative, the regional director of RBS' NatWest in the UK expressed his impressions from the outstanding customer service approach in John Lewis. He was mostly captivated by the bottom-up, independent approach to customers that every employee has in the organization rather than the top down approach that echoed in the past practices of the bank. The personal engagement with the brand and the employee pride at the workplace were also some of the characteristics that captivated the bank's managers. In this vein, the regional director stated:

"Everybody was empowered to deliver outstanding service to the customer, rather than everything having to be channelled through management. That was something that stood out for me. They all clearly had pride in the brand, in the branch, in the values in each other. Their ownership and accountability was

clear to see, together with how well they performed as a team to put the customer first on every occasion".

The key lessons learnt from the partnership were believed to enhance the bank's Helpful Banking Strategy and to support further the launch of the planned Helpful Leadership Academy at the end of 2012.

Furthermore, the role of visual artefacts and techniques has been an important ingredient in building an "emotional" relationship and communicating the aspirations of the bank to change to a sustainable bank, with its stakeholders.

> *"Since 2010, we have been trying to make a general emotional connection with our stakeholders, trying to remind them that we are more than sales practices, we tried to reconnect with stakeholders by emphasizing on the emotional rooting" (SM 25).*

This is demonstrated by the scale of visual communication tools used by RBS in the period between 2010-2012. In 2010 alone, the Visual communication team of the bank has produced around 300 films (RBS World, Issue 17, December 2011). Such scale is comparable with the annual film production of the largest independent production houses in the UK. All of them have been following the logic of simplification, introduced by the senior management in the previous phase of capability development. This requires communicating simple messages rather than complex ones that are difficult understand and remember by stakeholders (RBS World, Issue 17, December 2011).

> *"We created different versions of the campaign for different people. The YouTube video is targeted at a slightly older audience and the Facebook campaign is targeted at a younger audience." (SM 5)"*

Another manager explained:

> *"…what we tried to do is to create an emotional connection with the bank, and obviously our ads in the airport has this aim. It was a very much a case of creating an emotional connection, so we have been here for 275 years nearly 300 years, we have been lending to Scottish farmers for generations, we have been creating interesting local knowledge. We tried to communicate that we are part of Scottish society whether you like it or not and we have history that goes back hundreds of years in a light touch" (SM 26).*

In line with objective of group to improve its communication with internal and external stakeholders, RBS Group Communication started to issue a series of visual guides, which aimed to familiarize the employees with the group's strategic plan (Internal Magazine, page 20, 2012). **Figure 5.8** pictures the animated visual guide that was issued.

However, in contrast to the previous phase of capability development when the communication processes were oriented primarily internally, the data shows that during this period RBS management started to incorporate the actual perspective of its stakeholders, mainly customers by sharing and communicating experiences, interpretations and feedback transparently.

Figure 5.8: Animated, visual guide to the Strategic Plan and Non-Core function of RBS

Source: RBS Group communication

The following quote exemplifies the change of the management focus.

> *"Stuff like this the value stuff, although one may think it is just corporate noise, all companies have this stuff, for us it is quite significant because we did not have top-down values, RBS was not defined in that way. We are doing a lot of to bring the customers upfront that it is a cyclical, sustainable, green business. The entire communication is all being realigned under the values. There are much less stories about us and much more stories about the outside world through us, so what we are doing for customers rather than what the operation director is doing, before it was about our people doing things but they were written from a point of view profiling internal departments or people for the sake almost" (SM 1).*

Taken together, the data suggests that on process level the development of sustainability-banking capabilities was initiated through an interaction with stakeholders both externally and internally and an alignment of their perspectives. An emphasis was placed on building programmes and initiatives, which support learning through connection. Next section explores the transformations in the structure-based micro-foundations of sustainability banking capability.

5.6.3 Transformations in structure-based micro-foundations

'Outward-Inward' integration

The majority of structural transformations observed during the third phase of capability development established the context for information processing, interaction and collective action both from the inside and the outside of the organization. The observed structural micro-foundations can be represented by the following four themes: less codification of knowledge realized through the reduction of the number and the pages of policies related to sustainability; bringing together conflicting practice-based logics through the creation of new frameworks of operations; changes in the structure of decision-making, as well as a continuous integration of sustainability within the governance structure through the involvement of the Sustainability committee and internal promotions.

Based on the interview data a key structural change was the alignment between the risk and sustainability logics through the development of the group's new ESE (ethical, social and environmental) policy framework initiated in 2010 (RBS World, Issue February 2012). The framework was designed for managing environmental, social and ethical risks related to key clients. The primary objective of the new framework was to manage reputation and credit risk by integrating sustainability principles. It was initiated by one of the senior managers with long work experience in the bank who was internally promoted to his new senior position after 2008. He explained that continuing stakeholder protests in the sector triggered his initiative.

> *"After 2008, I developed what we are doing now in terms of group credit risk, which did not really exist here. We realized that lending to companies in risky industries can create a reputation risk. We had a number of protests at branches that had been lending to certain companies, such as those involved in animal testing or coal mining. My work has helped us to understand the importance of managing these risks in terms of trying to manage the negative publicity we get in the media or from protests. We are also working with NGOs or at least listening to them, rather than ignoring them like we used to do. I think we are more engaged now, and the bank has started to understand the importance of managing these risks" (SM 6).*

He further revealed the close collaboration that the credit risk team has with the sustainability team, which has not happened before the crisis.

> *"We also regularly meet with the sustainability committee and [name anonymized] and his team and we discussed these issues. We look at the reputation risk of that client and decide whether we want to continue to support that client or we need to stop operating their transactions. So, what I do is to look at all sectors, currently looking at gambling and power generation nuclear power plant which got issues to construct policies for them as well. A lot of changes have been really done…" (SM 6)*

According to the interviewee, the biggest challenge with implementing the framework and making it a part of the decision-making process is to make sure people inside and outside the organization understand it and accept it. The interview data suggests also that the Sustainability team often shared valuable knowledge and expertise, which acted as an accelerator of change practices.

> *"Yeah, I think we cannot do it over night and many banks have the polices but it takes a few years for the processes of these policies to be embedded and this needs to be approved and accepted. So it is about trying to manage these processes and push the culture. And there is a great support of Group Sustainability for doing that and they have deal with the push from the business*

and basically they understand that they need to do this to manage the reputation risk of the group" (SM 6).

Furthermore, the manager explained the process of integrating the new practice both internally by involving relationship managers and externally by a specially developed questionnaire, which is sent to the screened company.

"Well, there are relationship managers and each relationship manager for each department and client involved in this questionable sector for which we are not that sure, is asked to complete a ESE questionnaire, and we asked questions around their policies for ethical, social and environment risks, and of course whether they are implemented in the company and whether the company has the capabilities to manage these responsibilities, whether it has teams in place who manage these responsibilities, whether it has an environmental management structures. We check also whether the company has any bad press. Based on this questionnaire, we check what is medium high or low risks and these things and then we circulate it to the reputation risk committee of each division where the policy applies. It is quite well implemented now, of course there are some problems but it is about educating and training programs in ESE, but hopefully these things are starting to change the group culture and we are getting to see environmental and social risks"

According to a number of interviewees, namely in these structural transformations resided the key difference between the first and the second phases of sustainability-banking capability development.

"I guess even the fact that the two Investments and Community CSR teams join to form a comprehensive and overarching Sustainability team and the fact that we now have the Sustainability board committee which is a board committee that was a part of the management structure and shows that RBS is taking Sustainability critically.
These are the kind of tangible outputs if you like, where our work has taken place within the past few years. This board was organized in conjunction with what we felt the operating principles should be for the bank, and then that was debated at the committee, which is made of the CEOs of each division so corporate banking, retail banking, group risk of the bank they all sit on this committee" (SM 13).

Moreover, in the point of view of both employees and managers, such structural changes were driven by the motivation of the executives to transform “tick box risk culture” during the crisis into a sustainable and safe in risk organization (RBS Internal Magazine, 2011; interviews; participant observation).

Another structural change that aimed to change the current indirect approach that the bank had in analysing customers’ needs, was realized through the launch of RBS first Customer Charter in 2010. In contrast to the period before the crisis when the company’s managers used to assume what its customers and other key stakeholders (interviews) believed and what was good for them as the analysis suggested, in the third phase the company started to assess real factual data as part of the Customer Charter. According to the interviews, it generated an organizational routine of collecting and assessing real-life data rather than developing propositions as in the past. After its launch, the UK RBS retail division collected data from more than 30 000 customers. The data was then discussed, analysed and summarized by the company’s managers to 14 commitments and 25 goals for realizing them (informal conversations; interviews). However, in fact what was different from previous practices relying on data survey was the scale of learning by connection that it necessitated. In 2011 only, around 6300 employees have been trained to use the new customer review programme (Internal Magazine, Issue 13, 2011).

However, besides the integration of a Customer Charter and the ESE policy framework, during this phase a trend towards less codification of knowledge was also observed. One of the interviewees (SM 12) shared that during this period the number and the volume of policies related to sustainability was reduced or simplified to a basic, straightforward comprehension. He revealed that the management team has discovered that in his words “Nobody reads them”, which required such change. Another interviewee further elaborated that the objective of the management has changed from developing and integrating “standards” which are very rigid in structure to introducing simple policies based on inspirations of what the company would like to be.

> *“Yes, you want a culture of responsibility to permit within the company; on broader scale it is hard. On one layer you can do it through communications through using internal channels to talk about stories what people have done so you can use simple policies, which everyone can reference.* ***We are recently***

> ***preparing group wise principles, which are about not standards, but which are about inspirations of what the company would like to be and these two together are the most important things to be- the inspirational principles and then based on simple policies.*** *(SM 3)*

However, he stressed on the vital role that senior managers have in the process, namely to act as role models.

> *But actually because the way traditional organizations such as banks are structured the most important decisions are taken on roughly senior level and the rest tend to follow them so if you look for example which sector we would like to lend to, whether we put money in the next generation of nuclear power or we lend to gambling or defence sector, it is a very small group of people that make these decisions. This becomes binding and these things become not negotiable and you need to do educational work" (SM 3)*

In similar vein, other respondents also referred to the serving role that they have undertaken following the executive. In contrast to the first two phases, in this phase of sustainability-capability development, senior managers served as role models who did not simply communicate policies and standards but had the task of inspiring sustainable principles. One of the bank's senior managers stated:

> *"I guess we went back to the old-fashioned way, where the bank manager is the changing force in the community. Another initiative that we have taken in retail is what we call 'local market'. We divided the country into 150 geographical areas and appointed a local CEO for each local market. That CEO is the front person in the community. This was launched last year [2011] to change the practices. Each local CEO has eight branches, and he is responsible for recruitment, target setting, development, interfacing with community, contacting charities, etc." (SM 11)*

Moreover, the structure of the decision-making process was further restructured through the integration of stakeholder engagement panels where senior managers, outside experts and stakeholders form a dialogue based on an open agenda. A common belief among the interviewees was that the stakeholder engagement panels allowed a useful feedback to be generated. This is echoed in the narrative of one of the interviewees.

> *"We are in a very interesting stage that looks more real,* ***the stakeholder engagement panels*** *have exceeded all my expectation of how useful they are to the company. The chairman said that one of the recent ones has ever been in fact one of the best meetings in RBS, which for a chairman is pretty good, he has 10 meetings per week all year. That is a very good feedback .The reason why is because we have set a device for bringing the top of the house together with outside stakeholders and experts with no filtering, editing from internal teams no interest it is just only senior directors and an open agenda and outside experts. It is a different way of cultural management" (SM 1).*

Besides the stakeholder engagement panel, a change towards an internal integration of employees' feedback is observed in the establishment of open comments boards during the second phase. One interviewee explained that in contrast to the previous years when almost all employees would not dare to include their name under their feedback or comment, during the third phase of capability development, most people sign in with their full name and the function that they have in the bank.

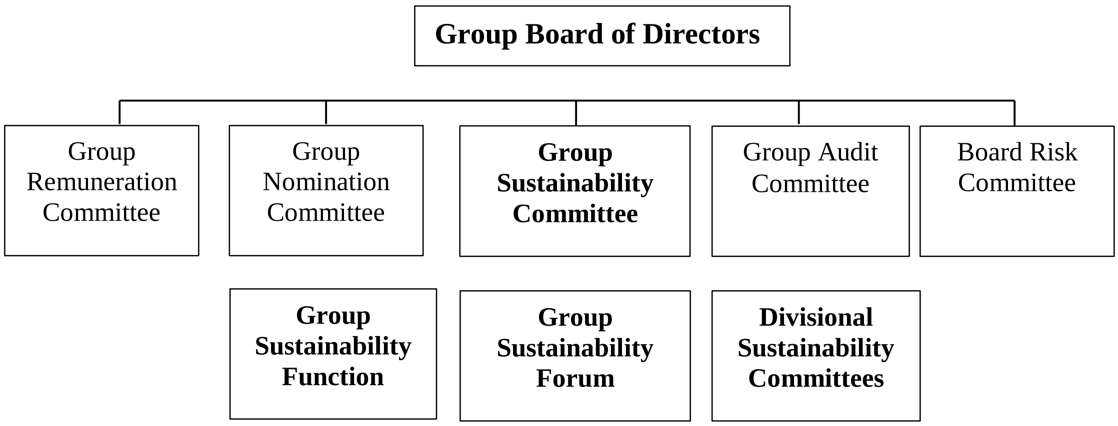
> *"Since the crisis we have been running open comments boards for big internal announcements and it seemed that we are marching away from anonymous comments. Then, I asked the team to look at the three-year history and the trends of the comments on those internal boards. It was interesting to find out that there is a trend towards anonymous versus non-anonymous comments, people leaving their name and function after 2008, which show that people are getting into a more comfortable open culture and they do not fear reclamations as before. We have been in deadly series for some years, but things are changing*" (SM 27).

During this period, the established Sustainable Business Committee continued to play a key role in integrating sustainability practices in the core of the bank's operations. It further developed to include not only members of the sustainability team but also representatives in the face of the head manager of every department. Such minimal restructuring aimed to further encourage knowledge sharing and consensus building in the group's governance structure (interviews, internal documents). Broadly, the main purpose of the Sustainable Banking Committee is to supervise and challenge how the bank's management is taking into account sustainable banking and reputation related issues, make decisions and implement actions which consider the long-term stakeholder interests (Internal Document, 2012). One of the managers, involved in the committee, explained that

"Marked shifts and we really truly try to listen to ask many stakeholders as possible, RBS now is very cognized that have public ownership. So in practice we try to be as much responsible to the society as a whole. And this is a much broader challenge, we try to engage more people, so with NGOs and campaign groups as a third sector. We have pretty more sessions and meetings with NGOs etc. than other years. And we are in closer contact with most of the issue groups" (SM 26).

Specifically, in line with its main purpose committee act as an "internal mentoring and supervising body" which meets at least 6 times per year in addition to the regular Stakeholder Engagement sessions it organises. Topics relevant to three-core sustainability related themes are discussed during each of the committee's meetings. These include: 1) Bank-wide Reputation and Trust led by the Chief Executive 2) Customer Franchise strength led by the Business executives and 3) Sustainability/Emerging issues, led by the Chief Sustainability officer (internal documents). Figure 5.9 describes RBS Group Governance Structure in the 2010-2012 period.

Figure 5.9: RBS Group Governance Structure (2010-2012)



Source: RBS Group Annual Report and Accounts 2010

However, the data revealed that setting a consensus across the board often involves a lot of debate due to the different positions the various representatives have. The narrative suggests also that reliance on more general framework allowed flexibility to continually update and change what is agreed to be a non-sustainable practice.

"Continually, yeah every meeting has its challenge, but that is the interesting part, it actually helps to not have very rigid definition, because it gives you the flexibility to look up a range of issues and continually update your work. I do not mind that now. When I raised corporate sustainability at the last meeting this was before Barkley's by the way. We are now going to staple a session going on at the end of the month where the board is meeting a number of outside groups and you circle these groups on corporate tax issues. So it is very good that taxes are considered as sustainability, CSR issue this year than 5 years ago. But in our company is definitely a sustainability issue because we are able to put it at that committee. And if you blow that committee, it does not really matter actually if we discuss a particular issue as a sustainability related issue the rest of the company should follow. That is the upside of hierarchy. You know that if you work in that group and you get them to accept, the rest would follow" (SM 20).

One of the interviewees shared insights into the decision-making process.

"Well, the first to say it is all about getting closer to a consensus as you can. It does work particularly for sustainability very well when you have two provisions and they do not agree the majority on a board meeting. In this way the session is taking but it is not necessary effective. So you always try to get to consensus view and this takes quite a lot of debate and quite a lot of time. But we get to the position where we say ok we have different texts but we need to get to a consensus eventually. ***Then after that there are a number of layers you can put to get things done so it is the group policy framework, which everyone should follow.*** *So if you want to make something compulsory you can look that. But big decisions in general once they are taken at the board meeting, they usually happen. So if we make a decision on lending on the defence sector for example as we changed our position on cluster bomb manufacturers, then this goes to the credit risk function and they changed the practice" (SM 1).*

He exemplified the dynamics of the decision-making process by providing an example with changes in the bank practices from 2009 in regards to lending to first tier suppliers to manufacturers of cluster emissions and subcomponents.

"A number of reasons but the original position we made in 2009 we thought was comprehensive but actually it was not comprehensive enough. We said we would not fund manufacturers of cluster emissions and subcomponents. So we lend to people who are doing components of cluster bombs but not the actual manufacturers. So in our policy we did not give lend to first tier manufacturers so we make a modification our policy to include first tier suppliers who supply key components so we changed our narrower policy to make it a broader policy" (SM 1)

The interviewee further revealed that it is interesting how often management decisions are supported for different reasons during group and board meetings.

> *"It is a plan for reducing the reputation risk and also a part of ethical decisions. Some people would support for different reasons. So the chair of the committee may support it for ethical reasons while the credit risk may support it for potential business reasons. It is interesting how you flip between these two modes of analysis. And this would happen during many times of the meeting. People would say but hang off what is the reputational risk, what is the best thing to do …you know" (SM 1).*

Furthermore, on organizational level, another change in the governance structure of the bank was constituted in the appointment of a head of conduct and regulatory affairs, who was assigned to directly supervise the implementation of the sustainable principles and code of conduct within the risk function of RBS and report directly to the CEO. According to the explanation of one interviewee, this change was paramount for the bank as it strengthen its risk function and improved the transparency of the function both internally and extermally.

> *"We pointed a head of conduct and regulatory affairs. This all sounds as a semantic shifting but up until now we had a head of compliance in our risk function and we had regulatory affairs within risk team within risk again. I suggested 18 months ago and we did, we achieved a conduct officer reporting directly to the chief executive which is not a risk based role because there are also connotation when you put stuff in risk departments…it is a different culture and becomes a second line activity, what people mean by that that is a function that people are checking whether people are doing things right but then it comes to the question if you put conduct into a second line function then the question is who is responsible for a good conduct.* ***We decided that this should be a strategic function rather than a second line activity within risk department****" (SM 1).*

Overall, the third phase of developing sustainability banking capabilities was triggered by a need to involve external and internal stakeholder groups, and to engage them in a continual conversation about sustainability.

5.6.4 Contextual features: Moderate exogenous institutional pressures

In the third phase of capability development, the institutional pressures affecting the development of the sustainability banking capability at RBS can be characterized briefly as moderate in intensity. They involved continuing customer dissatisfaction over high executive bonus compensations (e.g. Stephen Hester's possible compensation of 750,000 and £1.1 million salary) and the occurred IT problems in June 2012 when millions of bank's customers could not access their current accounts due to software failure (HL Paper 27-II). However, besides stakeholders' complaints over the high executive bonuses, the majority of respondents perceived stakeholder pressures as relatively moderate.

Another regulatory pressure is exemplified in RBS settlement of 2.8 million pounds with the Financial Service Authority (FSA). It was a result of RBS failing to handle complaints across the group. The findings showed that the group focused more on handling customer complaints within a set timescale rather than making sure that complaints have been solved, providing the best possible outcome (RBS internal magazine, 12 Feb 2011).

However, although regulatory pressures from the occurring regulatory fines from the LIBOR scandal and PPI mis-selling were still a challenge for the management of the bank, during this period, the data shows a regulatory and political recognition over the progress of the executive team to reduce risks that RBS posed for the taxpayers. Such recognition can be captured in the words of the governor of Bank of England at the time Sir Mervyn King who stated, "*Stephen Hester has struggled manfully to reduce the size of the balance sheet. That was the remit he was given and he has done a great deal to achieve that* (HL Paper 27-II, p. 249).

On the other hand, towards the end of 2012 numerous stakeholders already started to appreciate the steps that RBS has started to take in order to become a more sustainable bank (informal conversations with stakeholders, perception of interviewees).

Furthermore, according to the data, during this period, RBS management was not tentative to share the influence that social and political pressures had on their practices. An example of this observation can be found in the following quote: *"It is not RBS saying there is a problem with fraud; it's the industry saying we have to work with the customers to help them protect themselves" (SM 8 comments in Internal Magazine, 2011).*

Overall, there was a sense of the accelerating effect the moderate institutional pressures had on sustainability-capability development amongst the interviewees.

5.7 Summary

In summary, this chapter attempted to map the transformations that occurred in individual-base, process-based and structure-based micro-foundations in each of the three identified phases of capability development. It included also observations of the institutional level dynamics, which accelerated or inhibited the process of sustainability-banking capabilities. Next chapter presents the process model, which resulted as an outcome of the findings and a discussion of how the research advances the capability field.

CHAPTER SIX: THE NATURE AND THE DEVELOPMENT PROCESS OF SUSTAINABILITY-BANKING CAPABILITY

6.1 Introduction

The aim of this research study was to explore, *How do companies develop a specific type of dynamic capability through time?* This main research question was addressed through the following sub research questions: First, *What micro-foundations participate in the capability development process and how they do so?* and second, *How does the changing institutional environment influence the development process?*

In order to address these research questions, a process based methodology was adapted. It permitted a longitudinal observation of sustainability banking capabilities in the context of changing banking institution from 2004 to 2012. To provide an empirical understanding of the interplay among individual cognition, processes and structural change, a variety of real-time and retrospective data was collected between 2009 and 2012. The combination of these two types of data assisted the triangulation of the data and minimized any doubts about its accuracy and representation (Soulsby and Clark, 2011). The research advances process-based methodology by adopting a hybrid strategy approach through the complementary use of narrative strategy, visual mapping strategy and temporal bracketing strategy. The applied research design allowed key theoretical constructs and phases to emerge illustrating the different micro-foundational mechanisms and learning processes that underline them in relation to the changing institutional context.

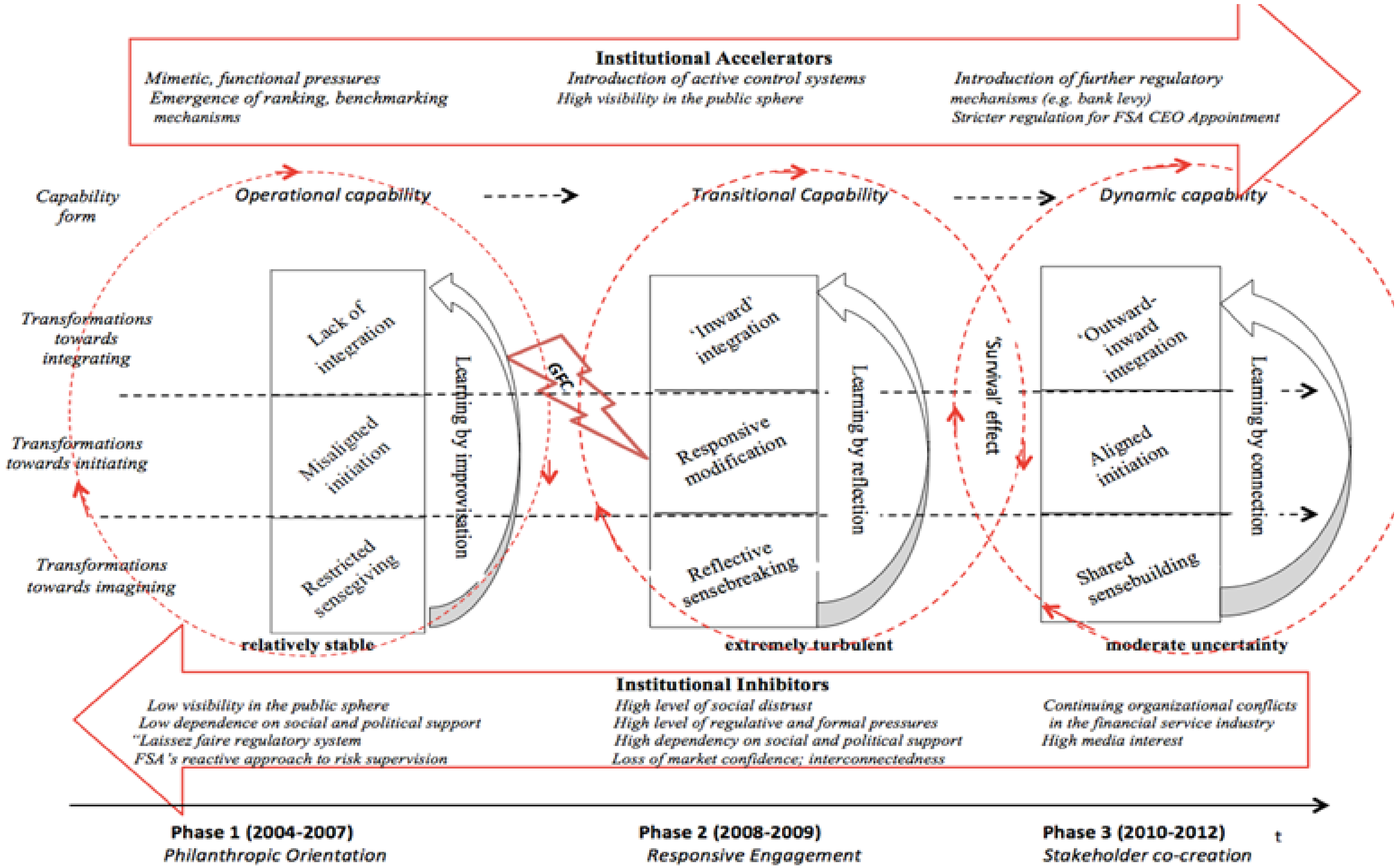
Motivated by the central debates in organizational capability theory regarding the development of dynamic capabilities, in this thesis I set out to understand the capability development process by utilizing insights from both recent scholarly discussions on capability micro-foundations (e.g. Felin and Foss, 2009; Felin et al., 2012) as well as the impact of environmental dynamism (e.g. Eisenhardt and Martin, 2000; Schreyogg and Kliesch, 2007; Ambrosini et al., 2009). Besides researchers' previous suggestions of the possible impact that macro-institutional changes may have on the capability development process, based on author's knowledge, to date there have been no empirical research studies, which illuminate this process of interaction.

The observed findings have theoretical ramifications for the organizational capability and strategic management literatures as well as a number of managerial implications especially for managers engaged in building sustainability banking capabilities in times of changing institutional dynamics. My discussion proceeds as follows: First, the process of developing sustainability banking capabilities is discussed, highlighting the underlying changes in the micro-foundational base of the capability. This discussion depicts the developed process model of sustainability banking capabilities development; how they transform from ordinary capabilities in the organization to dynamic capabilities in relations to the changing dynamism of the institutional context. The second part of the chapter provides insights into the study's findings about the evolution of the nature and form of the explored capability. Lastly, the chapter addresses emerging implications for theory and practice.

6.2 The Process of Sustainability-Banking Capability Development

Based on the findings presented in the previous chapter, I proceed by developing theory in the form of a process model of capability development as described in Figure 6.1. In general, capability development concerns the transformation of individuals' imaginations into new, coordinated patterns of knowledge, interests and coherent actions. The few empirical studies focused on exploring the capability development have defined the process as being gradual and cumulative rather than sudden and a response of existing capabilities (e.g. Montealegre's (2002) study of capability development for strategy formation and implementation at Bolsa de Valores de Guayaquil, an Ecuadorian stock exchange). The explored case of the RBS confirms the cumulative character of the process development but pinpoints the centrality of sudden exogenous shocks as essential triggers in the transformation of existing capabilities through time.

Figure 6.1 Process model of sustainability-banking capability



The empirically rooted capability-development model involves three layers where capability learning, which describes the general paths towards building capabilities, takes place. As can be seen on Figure 6.1, this process model defines capability development as the process that translates into micro-foundational transformations leading to processes of: (1) imagining (individual level) into (2) initiating (process level) and (3) integrating (structure level). Interestingly, the study shows that the interrelationship, referred as alignment in this study, between the explored micro-foundations defines the nature and the form that a given capability would take through time. Insights into the observed characteristics of the observed three forms of capabilities – ordinary, dynamic and the emerging from the findings of this study 'transitional' capability are presented.

Instead of discussing the findings cumulatively within the identified phases of capability development, next section proceeds to discuss them diachronically to facilitate the reader's understanding of micro-foundational transformations on each of the levels of analysis.

6.2.1 Individual-level transformations towards Imagining

The process model presents first the micro-foundational transformations on individual level leading to *the process of imagining*. Imagining relates to the recognition and the invention of action possibilities that favour sustainability. The study's findings demonstrate that imagination on the individual level, which is rooted in individual cognition, played a significant role in the development of organizational capabilities during all three phases of RBS's sustainability-capabilities creation. However, the impact of individual imagination differs in each of the three phases due to the found differences in the cognitive frames and the way individual cognition participated or did not participated in sustainability banking capabilities development (Laamanen and Wallin, 2009). In addition, it was discovered that the level of individual imagination fluctuates due to the different institutional influences that inhibit certain processes and practices, and accelerate the emergence of others. These findings are in line with those of routine scholars (Pentland and Feldman, 2003; Feldman, 2000) as they find that the organizational context, which is the result of the interaction between internal (upstream and downstream) and external forces (e.g. financial crisis; institutional pressures) shapes the course of actions.

As the process model demonstrates, transformations towards imagining evolve from what I entitled in the model as individual-level cognitive processes of *restricted sensegiving*, *reflective sensebreaking* and *shared sensebuilding.* Thus, each one of the depicted processes describes the occurring at the point of time cognitive rationality and perception of the existing environment. Consistent with

Phase One: Philanthropic Orientation (2004-2007): Restricted Sense-giving

In phase I, philanthropic orientation (2004-2007), the individual imagination emerged first in compliance with the general industry practices and benchmarks, and then as a managerial attempt to achieve greater recognition through the allocation of financial resources in the recognized opportunity area (e.g., increased sponsorship in deprived communities). The institutional stability during this development stage led to internal organizational inertia, which was supported externally by the observed isomorphism of strategic practices in the banking sector. Unrealistic cognitive frames about the dynamics of the current institutional context may constraint managerial decisions for the development or deployment of specific organizational capabilities necessary for sustaining a company's competitiveness (Ambrosini et al., 2009). Thus, the managerial cognition of the company's executives play a key role in this early stage of capability development as noted by previous capability researchers (Helfat and Peteraf, 2003; Adner and Helfat, 2003).

However, managerial cognition is not free from bias and limitations; the inability of company's managers to overcome these two constraints can initiate mismanagement or distract the company from practices, essential for its long-term success (Teece, 2000, 2007). This is mainly due to the interlocking nature of routines, being sequences of individual's short-circuit autonomous judgement; thus the dominance of particular judgement may lead to cognitive traps and undermine the managerial sensitivity to ongoing critical events in the institutional environment (Nelson and Winter, 1982; Durand, 2003).

The impact of these differences and the influence that it had in the development process, depended on the managerial hierarchy within the bank and the bounded rationality of its executives (Helfat et al., 2007). Assuming that managerial cognition is situated within the individual's position in the organization, it is believed to influence the process of searching and accumulating new capabilities as well as the process of maintaining and coordinating the existing ones (Gavetti, 2005).

Thus, the process of sensegiving and defining the sustainability of the bank was limited to the cognitive capacities of the executive and the management team (Teece, 2012). The top-down and controlling approach of the company's executive and its individual motivation in expanding the organization's portfolio enhanced the dominance of the economic logic of business sustainability over its social and environmental domains. During this phase, although the data suggested that small managerial groups such as the corporate responsibility team might have had a different perception and motivation, which was more favourable towards the social and the environmental pillars of business sustainability, the restricted sensegiving of the executives limited their execution and implementation in the core of the bank's corporate strategy. Recently, researchers (e.g. Eriksson, 2014) have acknowledged the need for more empirical research on the role of internal antecedents such as individual-based microfoundations on developing dynamic capabilities and in particular a greater focus on the negative influences of company's executives as it will enhance the possibility to detect companies able or unable to develop dynamic capabilities. The findings in this case study contributes to this call for research, illustrating how negative attributes such as the detected over-confidence of the bank's CEO and his illusion of control and insensitivity to outcomes (e.g. continuing expansion despite serial underperformance of the bank since 2003) restricted the ability of the rest of the company's middle as well as senior managers to question doubtful internal practices and to apprehend the risk from exogenous events (Durand, 2003).

This led to what I entitled as a *restricted sensegiving* of business sustainability in the illustrated process model on the individual level. This observation has a common ground with the argument of Teece (2012) who states that if the cognitive process of capability development reflects the beliefs of only a few individuals of the firm, this can be hindering for the organizational learning and company's strategic development. In the observed case study, some of the undergoing events and factors in the contextual environment stimulated the myopic tendencies of the executive during the first phase of capability development. For example, the underlying laissez faire regulatory systems and the bank's low dependence on social and political support during this period inhibited the internal managerial recognition of possible threats from the external environment but also let to competency traps internally in the other divisions of the company.

In distinction from prior work which has focused primarily on exploring the positive or the restrictive role of the executives in developing specific type of organizational capabilities (e.g. Zahra et al., 2006), the data revealed the importance of other internal and external actors who moderated the organizational knowledge and skills in developing and applying sustainability banking capabilities. The proximity of these actors to the organizational day to day life and practice influenced the way executives think and defined sustainability as an organizational capability as well as their willingness to enhance its institutionalization across the organization. In the first development phase, RBS managers relied on the knowledge of external agents such as a number of consultancy firms as a key way to optimize the flow of information and enhance the strategic resources for building sustainability capability (Rothaermel and Hess, 2007). However, as this interaction was restricted mainly between the corporate responsibility team and the company's external consultants, it limited the function of the capability only to marketing and reputation strategy rather than the group overall strategy.

Phase Two: Responsive engagement (2008-2009): Reflective sense-breaking

In phase II, responsive engagement (2008-2009), individual-based micro-foundational transformations towards imagination also played an important role. However, in contrast to phase I, in which the abundant balance sheet and the bank's position in the industry can be characterized as relatively proactive institutional triggers of managements' recognition of specific opportunities, the turmoil of the financial crisis and the resulting major disruption in the organization generated more reactive and reflective cognitive behaviours and sensemaking. The appointment of the company's new chief executive as well as almost the complete change of leadership that the bank experienced instigated a process of revising and constructing a new strategic vision of the organization (Hodgkinson, 1997). In this phase, what I defined as *reflective sense-breaking* took place.

A number of empirical studies (e.g. Pratt, 2000; Mantere et al., 2012) have suggested similar theorization of the managerial practice of discrediting dominant organizational logic to enable the establishment of a new one (e.g. shareholder versus stakeholder value creation logic in RBS). According to Mantere et al. (2012) on the individual-level, sense-breaking assists in nourishing loyalty across new organizational members while on the organizational level, it helps organizations to change their logic of operation. The employed term extends Pratt's and Mantere and his colleagues' theorization by placing an emphasis on the managerial forward and backward reflexive reasoning practice of destroying organizational meaning. In the case of RBS, as a way to break with the past and redefine itself as a sustainable bank, the bank's new management started to reflect on the past mistakes. However, the approach of the bank's senior management differed significantly from the observed in the literature previous organizational practice. Empirical studies (e.g. Pratt, 2000; Mantere et al., 2012) suggests that in their attempt to create a shared, collective sense, senior management would often impose negative organizational attitude towards past practices, often by drawing comparisons. This study has been unable to demonstrate this. In fact the findings suggest an interesting contrast. As the narrative data demonstrated, (see part 5.5.2 of the findings chapter entitled reflective sensebreaking, quote 4) in the period of the financial crisis, the focus of RBS management was on *not* drawing comparisons with the past but emphasizing on forgetting the past, both the success as well as the failure. On one hand, a reason for such managerial attitudes was the awareness of the senior management for the lack of organizational motivation and morale across the bank due to the on-going social and political pressures (e.g. Occupy Edinburgh social movement, the government bail-out). According to the findings such comparisons may harm even more the organizational morale of the bank.

On another hand, the findings suggested that this was the case due to the pervasive change of RBS senior management and their inability to catch up rapidly with uncovering the track of catastrophic past mistakes. Simply, the new executive team needed more time to receive the results from the assigned Strategic Review, which were issued in February 2009. The reflective sense-breaking process with the past encouraged sense-making on behalf of the managers with a long work experience in the bank such as members of the Sustainability team. As a result, they shared intangible knowledge with the rest of the new executive team by giving recommendations and sharing experience about sustainability related issues (e.g. previous emphasis on performance measures and inadequate methodology in assessing customer needs). This was later supported by the tangible results from the Strategic Review, which stimulated further the new strategic intent of the bank to transform itself to a "sustainable bank".

Furthermore, the observations from the findings suggests the process of reflective sensebreaking to differ from the proposed by Teece (2007) linear processes of sensing and seizing opportunities and threat in the capability development process. The key difference emerges in the fact that these processes include mostly external search in the business ecosystem and forward-looking cognition rather than a cognitive shift towards reflection and understanding as observed in this study's case (Zundel, 2013).

A reason for this difference can be traced in the context of observation per se. Teece (2007) draws conclusions observing the dynamic capability development of high-tech or other innovation-based enterprises relying generally on their research and development functions. Such businesses have usually leading positions in their market space and the dynamism of the environment is mainly determined by the launch of a new competitive technology.

Although such market disturbances may affect the competitiveness of high tech companies and necessitates particular changes in organizational practices; such market disturbances are periodically occurring and are less surprising in comparison to the effect exogenous shocks such as the 2008 financial crisis has on RBS. In the context of the financial services industry and the case of RBS, the lack of a previous managerial experience in dealing with extremely turbulent environments stimulated the process of reflective sense-breaking which included reference to the organizational past, possible mistakes and envisioning the future of the bank and defining its sustainable parameters.

The role of the entrepreneurial energy of company's managers in generating and evaluating ideas and new opportunities, and then later orchestrating resources for their successful enactment has been acknowledged in the capability and resource-based theories (Kor et al., 2007). As new comers, the company's new executive team started to learn by questioning old premises and logics with the help of a number of institutional entrepreneurs in the times of organizational distress. This observation reflects to some extent with the view of Schreyogg and Kliesch (2007) who argue that the higher the complexity of making sense of the changing environment, the more likely it is for a manager to use past experiences for making sense of a challenging phenomenon. In the case of RBS, the findings suggest that the managers were using past experiencing by *using* them as well as by *not using* them (e.g. dividing the bank's operations into core and non-core business). The reason for the latter attitude can be sought in the indignity that the bank was experiencing publicly as well as the number of regulatory pressures it was facing.

During this second phase, company's external and internal stakeholders acted as transformational agents or also called 'institutional entrepreneurs' within the institutional theory camp (Garud et al., 2002; Maguire et al., 2004). The data suggested two types of institutional entrepreneurs to have played a critical role during this phase. The first refers to previously marginalized under the old leadership – members of the corporate responsibility team as well as few other managers with a rich experience having worked internally across a number of divisions in the bank. The latter refers to dissatisfied external stakeholders of the bank, in particular the occurring at the time social movements such as the movement 'Occupy Edinburgh' and Occupy Free Radicals blogs). This observation responds to the call of Eriksson (2014) for examining the role of other employees besides that of executives in the capability development process. His review on 142 empirical articles revealed little reference for the role of other organizational members in the development process.

The attention of the new executive was focused primarily on orchestrating the internal resources of the company (e.g. financial resources, balance sheet) to ensure the survival of the bank after its corporate loss of 1 billion pounds and to make sure the bank is responding adequately to on-going regulatory pressures. In contrast to the new executive, the role and knowledge of the internal institutional entrepreneurs were central in assessing the company's resources outside the firm (e.g. reputation, relationship with external stakeholders) and shifting the attention of the new executives towards the development of sustainability banking capabilities (Laamanen and Wallin, 2009). In this respect, the findings complements the argument of Winter (2000) that the value of a particular capability varies through time mainly due to changes in the perception of different organizational groups by highlighting the importance of the dominance of a particular organizational group in shaping the firm's strategic orientation and influencing the overall group perception. The dominant position resulted from a specific organizational knowledge and experience as well as external social and regulatory pressures for change towards becoming a sustainable bank.

Individually, a number of managers who have been with the organization for a number of years and had witnessed the problematic areas in the management of the bank, started to experiment and to imagine new combination of economic value creation activities (Zahra et al., 2006).

The fear that RBS may not survive the financial crisis due to the potential implementation of inaccurate ideas obstructed the development of individual managerial ideas regarding responsive sustainable practices. Given the higher level of managerial uncertainty in the bank, the organization relied to a much greater extent on the imagination of external parties, such as consulting companies and competitors' best practices. Therefore, in the first two phases of capability development, the individual imagination did not unfold to its greatest extent, as managers tended to follow industry trends and external parties' visions for the future.

Phase Three: Stakeholder Co-creation (2010-2012): Shared Sense-building

In contrast to the first two phases, in phase III of stakeholder co-creation (2010-2012), the creation of new sustainability banking practices originated from management's inspiration to shift the RBS banking model away from the industry's 'ordinary' approach to banking into the creation of a sustainable one. As a number of interviewees pointed out 'ordinary' did not seem acceptable anymore.

In the third phase, the learning process that triggered the development of sustainable capabilities emerged through the co-imagination of the bank's managers and the bank's primary stakeholder groups (e.g. customers; employees). The emerging structural changes in the decision-making processes such as the introduction of the RBS Ambassadors programme and special stakeholder panel enabled a process of learning by connection in the bank.

This contradicts to previous views (e.g. Eisenhardt and Martin, 2000; Feldman and Pentland, 2003) that dynamic capabilities can originate only as firm-specific routines (Teece, 2012). In fact ad hoc processes from the encouraged flexibility in the organization by the new management as well as routinized activities (e.g. newly implemented practices, such as practices as part of the new ESE framework) were primary manifestations of sustainability-banking capability as a dynamic capability.

The negative pressure that the bank's management faced in the heart of the financial crisis, together with the ineffectiveness of previously adapted practices, stimulated a different perception of timing in idea generation. In contrast to the first two stages, during which bank managers were more reluctant to change the cognitive framing through which they assessed opportunities, managers were much more flexible in the third phase of capability development.

Moreover, the findings of this study showed that the executive mentality and individual skills were paramount micro-foundations for the process of capability development (Helfat et al., 2007; Teece, 2012). Company's executive played a crucial role for the success of RBS in dynamically competitive environments in the different phases of development as they defined the orchestration and the alignment between various resources and competences across the organization.

In this stage, the bank executive and senior management started to engage in shared sensebuilding directed towards both internal and external stakeholders through frequent interactions with the objective not simply to influence organizational action and stakeholder values (Gioia and Chittipeddi, 1991) but to facilitate the emergence of a hybrid cognitive frame where different stakeholder logics are actively maintained through a common but relatively ambiguous goal-frame –to be not “a” bank” but “the bank”, meaning a “sustainable bank”.

Another interesting insight from the findings of the study relates to previous but very limited discussions (less than 3 articles by 2006) on the role of strategic workshops in the strategy development process (Hodgkinson et al, 2006). According to Hodgkinson, Whittington, Johnson and Scwarz’s (2006) study strategic workshops are vital for positive relationship building among peers at senior levels. In contrast to this study which focuses on the structure of strategy workshops, my findings shed lights on the possible dynamics that organizational conferences may generate towards the process of shared sensemaking not only among members of the organization but also with external stakeholders. In contrast to strategic workshops, which follow usually a prescribed and a formal agenda toward a particular learning outcome, the observed organizational conference was bigger in scale involving members of various parts of the organization and was structured as a semi-informal dialogue. It stimulated the process of learning by connection and the emergence of a shared belief about the importance of implementing the sustainability agenda in the core business of the bank.

The discussed, in these part, individual-level micro-foundational constructs are important building blocks for understanding collective actions towards the initiating or the lack of initiation of particular organizational practices. Consistent with the conceptual suggestion of Felin et al. (2012) the study provides empirical examples revealing that each of the studied micro-foundations does not operate in a vacuum. The next section discusses theoretical implications from the observed process-based micro-foundational transformations towards sustainability-banking capability initiation.

6.2.2 Process-based transformations towards Initiating

Initiating refers to the interactively developed understanding of possibilities for collective action favouring sustainability. This part of the model illustrates the interaction of different individual-level learning processes on the organizational level, which results in coherent actions or inhibits such actions depending on the specific institutional influences. The development of common-ground processes is central for the creation of sustainability capabilities.

Phase One: Philanthropic Orientation (2004-2007): Misaligned initiation

In phase I, philanthropic orientation (2004-2008), the organizational-level learning processes were hindered by the limited interaction among members of different parts of the business. As discussed in the findings chapter, during this phase the sustainability practices of the bank as well as the supporting them communication and coordination processes were in their infancy. The emphasis that the bank's senior management was placing on sustainability beyond financial returns was limited to philanthropic actions (e.g. donations for various, usually sporadic and image building practices).

This lack of interaction and communication often led to a lack of shared understanding about the importance of ideas emerging from the imagination process and constrained their execution. In this regard, managers from the CSR division indicated that they rarely crossed the boundaries of their department to interact with managers from the other areas of the business that handled the actual production of new, sustainable products. Moreover, the implementation of new ideas and opportunities was restricted by the top-down process parameters of communication and management.

Phase Two: Responsive engagement (2008-2009): Responsive modification

In phase II, responsive engagement (2008-2009), the need for fast, yet adequate, responses to the institutional pressures resulting from the turmoil of the financial crisis placed RBS on a "survival" mode, meaning that the priority was on modifying responsively a number of organizational processes (e.g. prioritization of stakeholders, management of risk and uncertainties, rebuilding connection within the RBS group) in line with the call for organizational change from the UK government during the period. The overall organizational behaviour was generally reactive rather than proactive, relying on learning by reflection rather than a trial-and-error learning as previous research has suggested (e.g. considering different options but restricted from high regulatory pressures and lack of financial resources; responding through changes in risk-management policies).

Consistent with the observation of Nonaka (1994), the case data also suggested that chaos or discontinuity might result in new patterns of interactions between individuals and their environment (e.g. the interaction between sustainability team and the executive team). However, although fluctuations in the environment led to breakdowns of existing routines and habits by questioning the validity of previous practices as Nonaka argues, the findings revealed that such effects are not immediate and what is more interesting they often depend on the dynamism of exogenous factors (e.g. social distrust).

Similarly other researchers have noted that managers who perceive the environment to be complex may find it difficult to know which dynamic capability to use and may be unwilling to deploy any (Ambrosini and Bowman, 2009, p. 41). My findings share this viewpoint, suggesting that on organizational level, the high levels of social and political pressures had a coercive impact causing a traumatic effect on managerial confidence and ability to overcome path-dependency and to achieve aligned initiation of across the bank.

Moreover, an explanation for this issue is the scale of the turnover during the time of the financial crisis, triggered by continuing institutional pressures from the government and the call for change. The following quote from the speech of Stephen Hester in the Annual General Meeting of the bank in 2010 summarizes the scale of the turnover.

> *"And given in a more positive context; which is the way I prefer to do it of the eight person Executive Committee that sits in this room, not a single one of them two years ago was in the job they currently hold. Half have joined us from outside and half have been promoted internally. I think this is a good*

mix; I am very pleased with that…" (Transcript; Extract from Stephen Hester talk in AGM 2010).

Similarly to Tripsas and Gavetti's (2000) research study, the data confirms turnover in the top management team such as a change in CEO and executive team to be an important driver of change and in particular to discontinuous change. However, although the findings agree with Tripsas and Gavetti (2000) on this note, they do not support the authors' belief that in rapidly changing environments ongoing turnover is usually impractical for a given organization. The contrary is evident from the fact that changes such as internal promotions of people with long experience in the bank to executive level inspired an institutional entrepreneurship spirit in the bank. As the historical experience of members of the organization (head of risk team head of sustainability team and head of communication) drives cognitive representation as suggested by Tripsas and Gavetti (2000), this accelerates the process of *learning by reflection* on behalf of the senior managers, which on the other hand creates conditions for developing a dominant logic.

In the capability literature, scholars have argued (e.g. Tripsas and Gavetti, 2000) cognitive changes to be highly dysfunctional for the organization as they increase the risk of demise and are often significantly costly. The findings agree to some extend with this assumption by highlighting the difficulty which senior managers usually encounter in coping with cognitive inertia in the operational levels of the organization but they also elaborate on the importance that cognitive change, specifically changes in managerial attention play in initiating responsive modification of previously unsustainable practices.

The complexity of the organizational setting due primarily to the size and the scope of operations also inhibited the ability of the senior management to invest more substantially in practices related to the social and environmental dimensions of sustainability. Instead, the response of the management was oriented towards the recovery of the bank's financial sustainability. As explained in the literature review organizational resources are important building blocks for cross-functional integration and coordination of organizational capabilities (Javidan, 1998). The study highlights the importance of tangible resources (e.g. financial resources) for the initiation of capability learning and the enabling of trial-and-error learning and experimentation. As stated earlier in the chapter, to large extent the practices to invest in sustainability related initiatives were restricted to limited financial resources due to liquidity problems (e.g. see narrative from SM 9 in that section).

Phase Three: Stakeholder Co-creation (2010-2012): Aligned initiation

Before the financial crisis, RBS has managed stakeholder relationships by relying heavily on mandated actions from the top of the bank, checklists, and quantitative performance measures.

This relatively indirect type of communication methodology that the company applied in gathering feedback (e.g. reliance on internal perceptions of what stakeholders needs are or external consulting reports) from its main stakeholders in the second stage was transformed into a direct dialogue platform for external and internal stakeholders in phase III, stakeholder co-creation. In contrast to the first two phases, in which the execution of sustainable ideas was limited to the boundaries of a particular organizational department and to individuals' managerial experience and knowledge, the planning and coordination of ideas became extended within and outside the bank in the third phase.

In contrast to the first phase, in which managers mainly relied on knowledge gained from experience or imitation, there was a shift towards the articulation of knowledge gathered from external stakeholders (e.g. customers and employees) in the second phase. This learning process involved the modification of previously codified communication artefacts (e.g., company surveys) through which the company typically measured the efficacy of its activities (e.g., changing 'yes/no' questions into 'how' questions).

Moreover, the findings of the study suggest changes from 'silent' artefacts (e.g. the paintings across RBS headquarter) towards 'speaking' artefacts (visuals/poster communicating the bank's code of conduct and new chartered Customer values) (Cacciatori, 2012) to have an inspirational and motivational effect internally. Informal conversations during lunch breaks with some of the employees suggested also the trust-building effect that such speaking artefacts had on stakeholders such as customers and investors when visiting the bank. These observations call for future studies exploring in greater depth the influence organizational artefacts may have on organization-stakeholder interaction.

The members of the organization believed that the interaction and the establishment of a dialogue among the various external and internal participants primarily employees and customers could be achieved through the creation of an engaging, narrative story with specific strategic objectives. Moreover, the development of a common understanding through narratives based on personal stories was supported by a shift to more internal organizational coaching as pointed in the findings chapter.

These findings reemphasized the role of learning by connection in facilitating change by enabling both external and internal stakeholders to leverage common understanding, shared experiences and interpersonal rapport Turner and Rindova (2012).

The interaction between specific time-dependent organizational processes played a central role in the formation of sustainability-banking capabilities. Through social interaction, actors started to align their values, practices, modes of communications and implementation (Tsai and Ghoshal, 1998). These changes towards more listening and a collaborative approach to problem solving with the bank's internal and external stakeholders, occurred when the management of the bank started to act through a more optimistic mind-set and a high-inspirational vision. In this line of reasoning, the findings echo Weick's (1979) suggestion that "people are more likely to see something when they believe in it" rather than believe it when they see it".
Next section presents the key observations of the structure-based transformations towards integrating.

6.2.3 Structure-based transformations towards Integrating

Integrating refers to the alignment of interests and cognition in the conduct of legitimized actions for sustainability. It also implies the alignment of managers' actions aimed at supporting the achievement of specific sustainability objectives with the codification of those actions in the bank's structure. Moreover, the process of integrating allows capability learning to become embedded in the organizational structure, and broader as well as specific practices. This part of the capability-development model is essential, as it represents the practical enactment of the ostensive changes in the development process.

Phase One: Philanthropic Orientation (2004-2007): Lack of integration

In phase I, philanthropic orientation (2004-2008), the coordination of specific initiatives occurred primarily within the boundaries of specific organizational units. Certain objectives were sporadically achieved in the beginning of the capability-development process, which largely relied on trial-error and improvisational learning. The lack of internal engagement constrained the ability to sustain certain initiatives and restricted the transfer of other initiatives from different echelons of the organization. As some of the interviews (e.g. SM 5) suggested there was no real structure through which the bank was monitoring their stakeholder relationships as well as the financial sustainability. The top down approach of the bank restrained the function of its governance structure and hindered the ability of detect short-terminism, self-interest, and the too broad parameters of the risk management function. In this regard, the findings support the view of Eisenhardt et al., 2010) who stated that organization with more rigid structure is detrimental for its ability to respond to unusual events and corporate mistakes which occur in the bank with the global financial crisis. Next section discusses the structure-based micro-foundations which unpack during the crisis and their role in the process of integrating sustainability-banking capability in RBS.

Phase Two: Responsive engagement (2008-2009): 'Inward integration'

In phase II, responsive engagement (2008-2009), the regulative and stakeholder pressures resulted in increased managerial consciousness of the implementation of specific sustainable initiatives. As the findings demonstrated the emphasis was placed on internal restructuring and repairing the balance sheet of the organization as well as its connection with internal stakeholders.

Furthermore, internal institutional changes, such as the inclusion of a sustainability committee in the organization's governance structure and the division of Core/Non-Core divisions stimulated the coordination of new activities. In this phase, the transformations in organizational structures had an important role as they influence the perceptions and guided the actions of the people working within the organization (Felin et al., 2012). The structural changes determined the information and knowledge flows and shapes organizational feedback mechanisms. In these terms, organizational structures may act as facilitators of interaction across various organizational levels (Mattes, 2014). Furthermore, newly invited participants in the governance of the bank (e.g. group sustainability team, microfinance advisory board, environmental working group, moneysense advisory board) send feedback signals about the efficacy of anticipated activities in the organizational environment; consequently as suggested by Jacobides and Winter (2012) started gradually to modify the structure and shapes the process of developing capabilities (p. 1373). Nonetheless, the findings also provide empirical evidence demonstrating a potential change in structure either at the organizational or sectorial levels (e.g. the key regulatory changes by the UK government such as the introduction of active control systems and the introduction of the special liquidity scheme) may change organizational behaviour and the direction towards which capabilities evolve (Jacobides and Winter, 2012).

Phase Three: Stakeholder Co-creation (2010-2012):'Outward-inward' integration

Similarly, in phase three, stakeholder co-creation, the bank's newly established sustainability committee played a central role in the coordination of newly planned strategic initiatives.

However, in contrast to the other two phases, the sustainability-banking capability was based on the alignment of the company's internal priorities with those of its stakeholders. In addition to the integrative nature of the sustainability capabilities in this phase, a higher level of flexibility started to be evident. The governance structure of the bank at this point of time appeared to be more organic in nature, defined by de-centralized decision-making, open communication and less formality in executing initiatives as discussed by Wilden et al. (2013). As the data suggested CEO relational, serving leadership style nurtured the changes in the structure of the bank, which on the other hand helped to accelerate the level of interaction across different organizational members and other stakeholder groups. In this regard, the findings support Argyres and his co-authors (2012) who believe that governance structures are integrally entangled to organizational capabilities and their functions.

Previous research has argued a number of attributes such as incentive intensity, administrative control systems, board structure or contract law regimes to define the governance structure of an organization, thus organizational capabilities (Williamson, 2002). The findings of the study stress the central role of board structure, where the sustainability committee had not only a governing role but in fact it acted as an internal mentoring and supervising body for encouraging knowledge sharing and consensus building in the bank.

The research data contributes to the structure-based micro-foundations by highlighting the importance of *structural coherence*. The findings show that the changes in the institutional context led to changes in the structural coherence of the bank (Lowe et al., 2012). However, in contrast to previous research suggestions that emphasise the fact in order to improve structural coherence across the organization, senior managers are likely to invest in the process of codifying knowledge for ensuring the alignment between, my findings showed the contrary. In fact, less emphasis was placed on the process of codification and more building coherence through nurturing a more open debate and an increase in board meetings (e.g. six times per year).

Overall, the observed transformations in the micro-foundations of capabilities in each of the three level of analysis – individual, process and structure towards the organizational processes of imagining, initiating and integrating sustainability-banking capability in RBS, show the temporal and dynamic nature of organizational capabilities. Moreover, they suggest how changes in the micro-foundations may be responsible for mutations in the capability base. Next section proceeds to theorization in regards to these observations.

6.3 The Nature of Sustainability Banking Capability: From ordinary capability to dynamic capabilities via a transitional capability

Another key finding of this study is that the *variability in the alignment* of micro-foundational constructs defines *the form* and *the function* of the observed organizational capability - sustainability banking capability.

The capability development process is a complex process moderated by changing institutional environment and the presence of a number of *institutional inhibitors* and *accelerators* which moderate the occurring micro-foundational transformations.

By illustrating *the transformations in the micro-foundations* of the explored capability, my research study casts light on the temporal changes that accompany capability learning, which affect the capability nature and unfold into different forms of capabilities – ordinary, transitional and dynamic. Next section discusses these findings to explain how they advance the existing theory.

6.3.1 Emerging differences between Ordinary, Transitional & Dynamic Capabilities

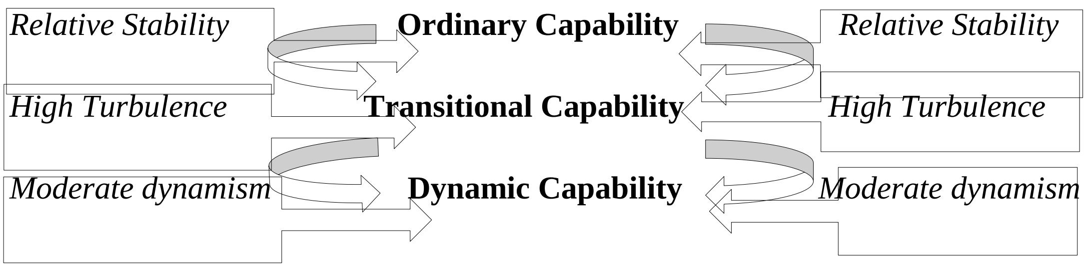
The investigation of the development process of sustainability banking capability by focusing on the interplay between its micro-foundations unveiled interesting observations in regards to the form and function they adopt during the process of dynamic capability development. Although most of the research works adapting an organizational capability view acknowledge the existence of ordinary and dynamic capabilities, there is a lack of research which examines how a particular capability transforms from being a non-dynamic or ordinary into a dynamic, strategic capability. Therefore, though a large number of studies explore how organizational capabilities emerge, adapt and survive (Lowe et al., 2012), the review of the literature suggests the lack of research (except to some extent of Helfat and Peteraf's (2003) theorization of capability lifecycles)which maps how organizational capabilities transform internally in terms of form and function.

In this aspect, the study complements the research discussions on capability hierarchy (Helfat and Peteraf, 2003; Hine et al., 2013). I observed how capabilities change over time under conditions of environmental turbulence (Pentland et al., 2012; Teece, 2012).

The findings of this research study showed the presence of what I entitled as a 'transitional capability', a capability which features microfoundational characteristics similar to those of both ordinary and dynamic capabilities but neither of them completely.

Figure 6.1 pictures the observed transformation in the nature of sustainability banking capability during the various phases of environmental dynamism. The micro-foundational transformations unpacking those changes are presented in Table 6.1.

Figure 6.2: Organizational capability transformation in different levels of environmental dynamisms



Source: Author

Table 6.1: Emerging differences between Ordinary, Transitional & Dynamic Capabilities

Form of Sustainability-banking capability	Ordinary capability	Transitional Capability	Dynamic capability
Variability in the alignment of micro-foundational constructs	Lack of alignment (Single)	Dyadic alignment (Individual-level micro-foundations=structure-based micro-foundations)	Triadic alignment (Individual-level micro-foundations=process-level=structure-based micro-foundations
Level of perceived environmental dynamism	Relatively stable	High Turbulence	Moderate dynamism
Mode of Attainability	Learning by imitation & improvisation (Outside)	Learning by reflection (Inside)	Learning by connection (Outside-in)
Managerial emphasis	Cost control/efficiency	Organizational survival	Organizational sustainability
Nature of strategic process occurrence	Gradual process	Sudden event	Reflective process
Nature of strategic content	Pursuing financial returns	Pursuing financial sustainability	Pursuing stakeholder-inspired & risk managed sustainability
Primary manifestation	"Best practices"	Simple rules	Combination of routinized & ad hoc processes
Effect on Organizational change	Reactive	Reactive	Proactive

Source : Author

6.3.2 Sustainability-banking capability as an ordinary capability

In the first phase of development, the sustainability banking capabilities in the examined case of Royal Bank of Scotland shared characteristics with the discussed in the literature - ordinary capabilities, also called operational capabilities (Cepeda and Vera, 2007). Table 6.2 summarizes the main attributes and brief empirical examples of sustainability-banking capability as an ordinary capability. During this phase the sustainability banking capability can be recognized under the form of routines orientated towards the corporate responsibility function of the bank. Some of these functional routines included benchmarking with other banks in regards to mainly philanthropic activities, writing reports and donating money to charities. In this period, the sustainability banking capability reflected the bank's ability to perform basic functional activities limited to a particular organizational division (Winter, 2000; Helfat and Peteraf, 2003; Salvato and Rerup, 2011).

Table 6.2: Empirical demonstration: Ordinary capability

Form of Sustainability-banking capability	Ordinary capability	Empirical demonstration/explanation
Variability in the alignment of micro-foundational constructs	Lack of alignment (Single)	Decisions only limited to a handful of company's executive (oriented towards shareholders' value); processes such coordination and communication on firm-level as well as on org. structure-level engaged only with pursuit of financial returns.
Level of perceived environmental dynamism	Relatively stable	Lack of day-to-day evaluation of potential risk factors on behalf of the FSA. Public appraisal and low intensity of regulatory changes
Mode of Attainability	Learning by imitation & improvisation (Outside)	Hiring external consultants (e.g. Deloitte); Benchmarking practices (e.g., The Equator Principals of the UN Global Compact, the Dow Jones Sustainability Index, FTSE4Good).
Managerial emphasis	Cost control/efficiency	"Tick box performance and evaluations measures"
Nature of strategic process occurrence	Gradual process	The process resembled a start-up business (e.g. a team of only 2 people in the beginning)
Nature of strategic content	Pursuing financial returns	Increasing number of acquisitions, inspirations for business growth and returns on equity
Primary manifestation	"Best practices"	Acknowledged with a number of CSR-related best practice awards which later proved to be short-term (e.g. Communities award for effective giving; Community cash back award)
Effect on Organizational change	Reactive	Limited to only to the CSR./Communication function of the bank, reactive changes in the organization.

Source: Author

However, besides their operational function in the organization, under the form of ordinary capability the sustainability activities of the bank enhanced its reputation across the industry. Although they emerged mainly through learning by imitation, in this phase the bank leverages a large amount of investment, which stimulated the creation of 'best practices' (Peteraf and Barney, 2003). This finding is in a line with Helfat and Peteraf (2003) who contrary to Teece and his colleagues (1997; 2001) state that not only dynamic but also ordinary capabilities can accommodate change processes that may impact the company's performance either directly or indirectly.

According to Eisenhardt and Martin (2000) dynamic capabilities occur in the form of best practices in institutional contexts, which are moderately dynamic. Although the data suggested that sustainability banking capabilities became dynamic in an institutional context, which was relatively moderate in its dynamism, they were not necessary 'best practices' in comparison with the rest of the institutions in the banking sector. In the explored case study, 'best practices' in the form of sustainability-oriented activities existed during the described first phase of development (2004-2007) where the institutional context was relatively stable.

Although these 'best practices' contributed to the competitive advantage of the bank in a number of aspects (e.g. attracting investors' resources, government support and partnership in the launch of Child Trust Fund on 6 April 2005; the hosting of the UK low carbon summit in TATE modern; letter from Alex Salmon congratulating RBS CEO for the implemented acquisition strategy as well as media amicability exemplified by the testimonies of some interviewees), they did not contribute fully to the formation of a dynamic capability in regards to sustainable banking.

As noted in the findings chapter, the learning mechanisms through which the sustainability-banking capability emerged during the first phase of development were through a reliance of external actors (e.g. Deloitte consultancy) and benchmarking practices from the banking sector. Such learning approach was mainly conducted by improvisation and imitation of socially responsible practices. Sociologists refer to this process as "normative isomorphism" (DiMaggio and Powell, 1983). According to Eisenhardt and Martin (2000) best practices, which they define as dynamic capabilities, refer to the process of learning, not imitating the best way to perform a particular task or process. The contrary dynamics were observed in the case of RBS. In fact they can be characterized as "ordinary". In this regard, my findings support empirically the latest conceptualization of Teece (2014), who suggests best practices alone to be generally insufficient to be regarded as dynamic capabilities. Thus, in cases where consultants or modest investments in training assist in the development of best practices, most probably best practices will be routines or processes that constituted ordinary capability as observed in the studied case of RBS.

Therefore, the findings of this research support only partially Eisenhardt and Martin's (2000) postulations. Furthermore, a reason for that is the misalignment between its micro-foundational foundations that was observed during the first phase of development as well as the mimetic adaptation mode (Siggelkow and Rivkin, 2009) through which the observed sustainability related best practices occurred.

6.3.3 Sustainability-banking capability as a transitional capability

During the second phase of development, what I defined here as a transitional capability was observed. Previously, scholars (e.g. Helfat and Winter, 2011) have suggested conceptually the possible existence of dual-purpose or multiple variant capabilities as a result of what they have called a blurry line between operational and dynamic capabilities. Table 6.3 summarizes the key characteristics of sustainability-banking capability as a transitional capability.

However, the dynamics of such capabilities have not been observed or discussed empirically, which reflects in Helfat and Winter's (2011) call for future research in this domain. According to Helfat and Winter (2011), such multiple-variant capabilities can be used for both operational and dynamic purposes.

Table 6.3: Empirical demonstration: Transitional capability

Form of Sustainability-banking capability	Transitional Capability	Empirical demonstration/explanation
Variability in the alignment of micro-foundational constructs	Dyadic alignment (Individual-level micro-foundations=structure-based micro-foundations)	Alignment between the new management inspirations to transform the bank into a sustainable institution and practices of change in the organ. structure.
Level of perceived environmental dynamism	High Turbulence	The Global Financial Crisis 70% government stake after signing the ASP scheme for £25.5bn of capital High public pressure (Occupy Edinburgh protests)
Mode of Attainability	Learning by reflection (Inside)	Senior management reflections on the past but restricted practices of change due to organizational/mid-level fear and inertia
Managerial emphasis	Organizational survival	Managerial efforts to rebuild the financial and reputational stability of the bank
Nature of strategic process occurrence	Sudden event	Emerged suddenly as a result of an exogenous shock (Global Financial Crisis)
Nature of strategic content	Pursuing financial sustainability	Inadequate capital base and dependency only to wholesale capital market
Primary manifestation	Simple rules	"Think about customers first"

Effect on Organizational change	Reactive	High dependency on the UK government; Gaining commitment internally on process-level was a challenge due to low organizational morale and anger

Source: Author

The complication of drawing a line between operational and dynamic capabilities occurs due to the speed of change they enable in organizations. The scholars state that sometimes the low pace in which changes occur can disguise one capability as operational but in fact it can have a dynamic variant when it is explored longitudinally. The analysis of the findings in the second stage of capability development proves that the contrary can be also true. Although radical changes are associated somehow instantly with dynamic capabilities, the analysis suggest that extremely turbulent exogenous shocks can lead to internal disturbances and misalignment in the interrelationship between some micro-foundations composing them which on the other hand can constrain the level of impact the capability under study can have in the process of organizational adaptation and development.

In the explored case of the RBS, while a number of characteristics of operational, non-dynamic nature of sustainability banking capability were observed, the exogenous shock which the bank experience in the face of the global financial crisis stimulated transformations in company's micro-foundations which modified the company's bundle of resources and competences, a main attribute of dynamic capabilities (Bowman and Ambrosini, 2003). The organizational inertia and to large aspect the organizational fear across the bank due to high level of social and political pressures obstructed the process of initiating and legitimizing the practice equally across the various management teams.

Therefore, the intensity of the institutional dynamism as well as the rapid changes in the structural (a complete restructuring of governance, introduction of new practices) and individual-based micro-foundations (e.g. change of almost entire leadership team) resulted in internal adaptive tensions across the different epistemic communities (divisional team groups) not significantly in the performative aspects of the new routines composing the sustainability capability but mainly in its ostensive characteristics.

6.3.4 Sustainability-banking capability as a dynamic capability

The sustainability banking capability adapted the form and function of a dynamic capability during the third phase of development, named Stakeholder Co-Creation. In this phase, the sustainability banking capabilities became strategic for the entire organization. They emerged from the co-alignment between the individual-based (shared sense-builing), process-based (aligned initiation) and structure-based micro-foundations (inward-outward integration). Consistent with the theoretical assumptions of Teece (2014, p. 337 it became evident that the development of a dynamic capability requires both an external (outside the organization) and internal orientation of management. Table 6.4 summarizes the main features of the new dynamic character of sustainability-banking capability.

As reviewed in the literature review, postulations about the nature of dynamic capabilities differ among scholars. For example, in contrast to Zollo and Winter's (2002) view of dynamic capabilities as being structured and persistent in a given organization, Rindova and Kotha (2001) identify dynamic capabilities as emergent and evolving. My empirical findings suggest that the truth is in the middle. While it can be assumed that dynamic capabilities can be persistent in a given organization, as they typically a long-term commitment to specialized resources (Winter, 2003) such as the investments in developing the Sustainability function (e.g. hiring more specialists, designing new voting software systems allowing internal-external feedback), the sustainability-banking capabilities emerged and evolved as dynamic capability as suggested by Rindova and Kotha (2001) through time from having simply an operational function for RBS (e.g. philanthropic, external brand-image function).

Table 6.4: Empirical demonstration: Dynamic capability

Form of Sustainability-banking capability	Dynamic capability	Empirical demonstration/explanation
Variability in the alignment of micro-foundational constructs	Triadic alignment (Individual-level micro-foundations=process-level=structure-based micro-foundations	Synchronization between senior management objectives, organizational processes and structure
Level of perceived environmental dynamism	Moderate dynamism	Continuing customer protests in the banking sector as a whole; LIBOR scandal involvement but a significant reduction of

Mode of Attainability	Learning by connection (Outside-in)	Through an open dialogue with internal and external stakeholders (e.g. development of stakeholder engagement panels)
Managerial emphasis	Organizational sustainability	A holistic approach to sustainability becoming a synonym of culture and identity
Nature of strategic process occurrence	Reflective process	Cyclical nature; Shared sense-building, aligned initiation and inward-outward integration harnessing shared sense-building
Nature of strategic content	Pursuing stakeholder-inspired & risk managed sustainability	Alignment between sustainability and risk management teams; ESE framework development
Primary manifestation	Combination of routinized & ad hoc processes	Ad hoc processes to address isolated emerging issues (e.g. changes in bank policies such as lending policy to third tier suppliers to manufacturer of cluster emissions). Routinized process such as regular feedback group meetings
Effect on Organizational change	Proactive	Collective ability to initiate practices of change; Inspirations to become a driving change in the banking sector (e.g. the bank instead of simply a bank)

Source: Author

During this period, the transformation of sustainability-banking capability from a transitional to a dynamic capability happened also with the change of the degree of environmental dynamism. Although they were still persistent (e.g. emergence of LIBOR scandal), the positive view and satisfaction of the UK government towards RBS CEO's efforts in rebuilding the bank as well as the RBS more proactive engagement towards external stakeholders allowed for a change towards learning by connection.

Next section discusses the role of the changing context in capability development.

6.4 The role of the changing context in capability development

To date as the review of the literature unveiled most studies explore the way dynamic capabilities assist companies to cope with the dynamism of environment and to survive or sustain their competitive advantage. In this aspect, research has defined the role of environmental dynamism on the ability of dynamic capabilities to regenerate company's competitiveness to be either moderating (Eisenhard an Martin, 2000; Zahra et al., 2006) or driving (e.g. Teece et al., 1997; Li and Liu, 2014). A general belief among scholars is the fact that the more dynamic and turbulent the operational environment is, the greater the value of firm's dynamic capability (Makkonen et al., 2014).

Similarly to other works, my research study acknowledges and brings the institutional environment back to the forefront of the literature of organizational capabilities. In this regard, the study's research findings demonstrate that the nature of organizational capabilities, either operational or dynamic depends on the context and its dynamics (Eisenhardt and Martin, 2000; Kay, 2010).

However, I extend the current discussions by focusing on the effect that changes in the dynamism of the environment, in which a company operates, may have on the development of an organizational capability, in this case sustainability-banking capability, and its transformation from being operational, transitional and dynamic for RBS. Moreover, empirical discussions on the relationship between environmental dynamism and organizational capabilities are mostly quantitative in nature (e.g. Schilke, 2014; Li and Liu, 2014) focusing on the cause and effect relationship rather than adopting a qualitative research design for studying what context-specific institutional factors define the level of environmental uncertainty which influence the development process of organizational capabilities. The study's findings respond also to the recent call of Eriksson (2014, p. 75) who states that the environmental conditions are often implicit in the empirical research, being built into the context but not explicitly addressed. According to the author inhibiting external factors, rigidities are identified as significant, but there is little further empirical evidence on potential inhibitors, which makes them worthy of future research.

Interested to explore the impact of the institutional environment on the capability development process, this study asked the following research question: *How do the changing institutional context and its dynamics influence the development process?*

6.4.1 Institutional Accelerators and Inhibitors

Interestingly, in respect to this research question, the applied processual analysis revealed the existence of both what I called in this study, *institutional inhibitors* and *institutional accelerators.* Both categories of external factors appeared to have a temporal character. However, the temporal character and whether a particular type of institutional pressure had an inhibiting or an accelerating impact appeared to be implicit to the each of the observed three phases of capability development. For example, in phase one of capability development, regulatory pressures such FSA approach to risk supervision were reactive and relatively weak in nature, which inhibited managerial ability to recognize increasing risk attitudes. In contrast the change towards to a more active control systems in the FSA was stimulating for RBS pursuit for change towards a more sustainable future.

Moreover, the research observations suggested the existence of a dyadic, synergistic but temporal effect that certain institutional factors may have on capability micro-foundations. Such dyadic effect that institutional inhibitors and accelerators have on capability micro-foundations were mostly evident during the times of financial distress in RBS. In this phase, the 2008 crisis first acted as an institutional inhibitor of current practices. When a fear for the organization's survival emerged (e.g. became a common thought pattern among employees), institutional pressure for transparency accelerated the development of sustainable-banking capabilities. A possible explanation for this reason as Gioia and Chittipeddi (1991) note can be found in the pressing rationale of crisis events for altering the organizational status quo. Further explanation is reflected in Winter's (2000) assumption that a crisis may raise aspirations and motivate the organization to improve the level of capability (Helfat and Peteraf, 2003).

In addition, during the stakeholder co-creation phase, regulatory and normative changes acted as accelerators encouraged a more broad-based and open approach to developing sustainability projects, which involved multiple internal and external actors. In contrast, during phase one, the lack of institutional pressures and the presence of authoritative leadership led to cognitive inertia and to a lack of participation in sustainability initiatives.

The findings pointed out to an interesting possibility to explain the development of sustainability-banking capability through a somehow hybrid meta-theoretical perspective between Van de Ven and Poole's (1995) dialectic and evolutionary meta-theoretical perspectives. Although Van de Ven has suggested previously the possibility of such hybrid meta-theories, to my knowledge empirical evidence has not been able to capture such possibility. As discussed in the literature review chapter, research on organizational capability usually is conducted through the prism of evolution process theory. However, such research theorizations seem to detach the role of the institutional context from capability formation. If the role of the institutional context and its dynamism is considered, the observed process of organizational change can be theorized through the dialectical process theory of Van de Ven (1992) which pictures thesis (organizational pursuit), antithesis (various institutional pressures, leading to a degree of dynamism), a conflict (when there is a dominance of one institutional logic over another) and a synthesis (when pressures are moderate). Future conceptual or empirical research on capability development can address such alternative views of explanation, especially if they are concerned with observations derived from phenomenological-driven studies.

6.5 Further theoretical contributions

One additional area to which the research contributes is to existing discussions about capability lifecycles (Helfat and Peteraf, 2004). In their conceptual study, Helfat and Peteraf (2003) suggested the general path of a capability, either a dynamic or an ordinary, to evolve through the following stages: founding stage, development stage, maturity stage and additional six branches (retirement (death), retrenchment, renewal, replication, redeployment and recombination. According to the authors a given capability may enter a new development stage as part of the redeployment stage if for example the organization decides to apply it to a different geographical market. While Helfat and Peteraf's (2003) analysis of capability branching discusses and applies to dynamic and ordinary capabilities alike, the observations of the study suggests an additional capability lifecycle scenario, namely the possibility for the emergence of a dynamic capability from an ordinary capability. In particular, in the explored bank case, it is relevant to argue that the development process of sustainability-banking capabilities as a dynamic capability happened as a part of the deployment (transformation stage) of the operational capability internally as discussed in the findings chapter.

Therefore, the study extended our knowledge about the internal (micro-foundational changes) not only external dynamics (e.g. change in geographical markets) of occurring redeployment branch, which enables dynamic capability development. On the other hand broadly these observations may expand and stimulate knowledge inquiry beyond that of sources of heterogeneity for the firms in which capabilities reside (Helfat and Peteraf, 2003), into internal organizational capability mutations.

Another interesting aspect of the work which motivates further research query is about the role of visionary ambiguity in stimulating change. Previous researchers (e.g. Baer et al., 2013) exploring organizational cognition have suggested that cases of organizational changes can lead to heterogeneity of perceptions and objectives, which may disturb the process of knowledge and information sharing across organizations. On the other hand, the literature on organizational change suggests, that ambiguous vision statement and unclear organizational objectives often can lead to organizational failure (Gioa et al., 2012). However, the findings of this study revealed the opposite understanding, supporting empirically the conceptual work of Gioa et al. (2012). During the third phase of capability development, it became clear that the meaning of sustainability is ambiguous and unclear for many organizational members, including some senior managers. However, instead of being perceived as negative for the organization, the data indicated that such ambiguity was in fact beneficial for the bank as it allowed as some interviewees explained a revision of practices and faster adaptation to the demands of the stakeholders.

6.6 Summary

This chapter discussed the main research question of the study, namely how a specific type of dynamic capability, in this case sustainability-banking capability was developed in the changing institutional context. Three main points were discussed.

First, the development of a sustainability-banking capability was discussed in the form of a process model. The model showed how changes on each of the three micro-foundational levels affected capability learning and the form and function of the capability. Thus, the sustainability-banking capability in the first phase of development did not evolve as a dynamic capability but it simply shared characteristics of an ordinary capability due to processes such as restricted sensegiving on the individual-level, misaligned initiation on process-level and lack of integration on structure-level. In the discussion, it was shown how the dynamic nature of the capability evolve in the third phase of capability formation, entitled Stakeholder co-creation, where processes such as shared-sense building, aligned initiation and 'outward-inward' integration were occurring.

Second, the discussion chapter focused more explicitly on explaining the attributes of each of the three forms and functions of sustainability-banking capability – ordinary, transitional and dynamic. Third, the chapter proceeded with an overview of two emerging types of institutional factors – institutional inhibitors and institutional accelerators and their role in the capability process. Next chapter proceeds with a conclusion of the main theoretical, empirical and methodological contributions as well as implications to practitioners and future research avenues.

CHAPTER SEVEN: CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

The purpose of this work was to explore capability development in the changing institutional context. This thesis has shown the interrelated nature of micro-foundational constructs of organizational capabilities in times with different degrees of environmental dynamism (low, high and medium in turbulence). The alignment/misalignment between micro-foundations of capabilities proved to have a key impact on their function and form and the way they unfold to be operational, transitional or dynamic. These processes were observed in the case of the development of sustainability-banking capability. The study reinforces the literatures surrounding the development of organizational capabilities, micro-foundational thinking, the role of environmental dynamism in capability formation as well as the fields of sustainability strategy in general.

This final chapter summarizes the main theoretical, empirical and methodological contribution to knowledge. It continues with a brief overview of the practitioners' implications of the work. The chapter concludes with an outline of some of the limitations of the study and potential venues for further research.

7.2 Theoretical contributions

This study contributes centrally to the field of organizational capabilities and peripherally it has implications for institutional theory and research work exploring the interaction between sustainability and strategy.

7.2.1 Central contribution to the Organizational Capability literature

To capability literature, the study contributes to knowledge on several fronts. First, I built an empirically grounded synthesis of the micro-foundations by focusing explicitly on the interaction between the composing it different sets of micro-foundations on the individual, organizational and structure levels, involved in the development of a specific type of dynamic capability - sustainability-banking capability -which advances theoretical research agenda initiated by Teece (2007) and

Felin et al. (2012). In this regard, I tracked capability development at the firm level, trying to build a picture of the internal and external dynamics influencing the process. The discussion of the emerging findings resulted in the construction of a process model mapping the occurring transformations in the micro-foundations of capabilities. Thus, the study also strengthens the exploratory empirical grounding of dynamic capabilities (Helfat et al., 2007).

Most of the research on dynamic capabilities provides a singular focus on strategic change (e.g. a specific function of the organization such as R&D), rather than organizational change more broadly (Helfat and Martin, 2014, p. 2). This study contributes to the latter as the explored case is a story of change of an organizational identity (becoming of a sustainable bank).

The research attempts to contribute to the ongoing discussion about the micro-foundations of capabilities by showing the change and aggregation processes of the studied sustainability-banking capabilities across levels of analysis.

It was recognized that micro-foundations at a particular level might interact (e.g., inhibit or enable learning) with another level. For example, capability development is highly dependent on managerial imagination, such as a manager's ability and interest in imagining potential markets, developing responsible business models and capitalizing on possible opportunities. Such imagination, however, is restricted by the extent to which group-think and/or organizational constraints prevent individuals from imagining opportunities for new, responsible business; are unwilling to act upon those opportunities; or are ill-equipped to exploit them.

As outlined in the literature review chapter, researchers (e.g. Barney and Felin, 2013) have argued that simply referencing to micro-level concepts such as learning or cognition does not suffice the study of micro-foundations. In fact, they cannot be regarded as micro-foundation per se if explored detached from the contextual environment (Hodgson, 2012). In response to these criticisms, this research contributes by not only focusing on the senior managers but also assessing how their motivations are translated into organizational processes and structures.

In consistency with other studies (e.g. Rosenbloom, 2000; Adner and Helfat, 2003) my research study documents the impact of heterogeneity in top management cognition (both positive and negative) has on strategic change and capability development process. In their recent study and review of the literature, Helfat and Peteraf (2014, p.) outline two meaning of cognition used in the strategic management literature and the study of micro-foundations of organizational capabilities. The first depicts cognition as mental processes while the second refers to mental structures of representations. The authors argue that most of the research has been focused on studying micro-foundation by adopting the second explanation of cognition. Thus, they call for empirical investigations looking at cognition as mental processes. For example, my research contributes to this call for research by focusing on the managerial cognitive processes of restricted sensegiving, reflective sensebreaking and shared sensebuilding, which emerged during the study of the development process of sustainability-banking capability.

Another contribution to theory is the recognition of inhibiting and accelerating factors, which influenced the degree of environmental dynamism and impacted the process of capability development. Here, I borrowed from institutional theorists' (North, 1991; DiMaggio and Powell, 1993; Oliver, 1992, Scott, 1995) discussions on types of institutional pressures. This allowed for a greater detail when discussing what factors from the environmental context influenced individual-level cognition and organizational-level processes and structure. In this regard the study contributes to Pettigrew's et al. (2001) calls for revealing the role of temporal and spatial contextual in shaping organizational processes and practices, as it shows how the changes in the context (types of institutional pressures and perceived dynamism) affect the process of imagining, initiating and integrating organizational capabilities.

The presented findings raise the possibility that though in static or stable environments one may observe relatively similar functional capabilities, which may seem relatively consistent through time, individuals' aspirations, and actual managerial behaviour can accelerate changes in their micro-foundational base leading simultaneously to changes in their form and function. Next some of the peripheral contributions of the study are briefly summarized.

7.2.2 Peripheral contributions

By identifying institutional inhibitors and accelerators, the research findings contribute in the periphery also to institutional theory and more specifically discussions on institutional pressures for change. Used even simply as constructs, they can be applied in future research studies equally from proponents of institutional theory as well as organizational capabilities view.

Peripherally the research findings contribute to research discussions on management learning before, during and after crisis and some of the occurring barriers to capability learning. Three general processes of capability learning on organizational level were identified in the study: learning by improvisation and imitation (before the crisis), learning by reflection (during the crisis) and learning by connection (after the crisis). On the other hand, the findings of the study offered a detailed picture of the interplay between macro-level institutional forces with the changing practices of financial institutions during the financial crisis. Most of the research reflection has been on the macro-level causes of the global financial crisis, but not explicitly on the individual and organizational behaviour of financial organizations with near-death experiences, though such observations can assist in understanding why certain financial organizations fail to survive.

The research study adds to the discussions on the intersection between sustainability and strategy. As discussed in the literature review chapter, to date there is a variety of different understanding of what constitutes the construct of corporate sustainability. Broadly, current rationalisations have looked at the construct as either being synonymous of corporate social responsibility, totally different or a higher-order construct to corporate social responsibility. By exploring business sustainability through a capability lens, this study contributes to the call for charting future research that integrates sustainability into the strategic management doctrine (Bansal and DesJardine, 2014). The examination of the RBS journey in developing sustainability banking capabilities empirically reemphasized the central role of time when studying business sustainability as it enables to understand how particular organizational micro-foundations unfold to define the short-term versus long-term trade-off in a particular company setting. In the explored case study, the meaning as well as the function of business sustainability changed over time. Individually this finding opposes current rationalizations of what sustainability is (being a synonym, higher-order or a completely separate construct) but collectively confirms them.

To the sustainability literature, the findings of this study contributes to the previous literature by offering a more comprehensive understanding of the construct of sustainability, its evolution from a simple function in the organization to an organizational dynamic capabilities. The observations in this thesis contribute also to the exploration of variation of sustainability adoption by offering a firm-level perspective rather than an industry or a country level perspective which has prevailed in the majority of research studies, applying mostly a neo-institutionalist perspective and a macro-level culture perspective (e.g. Husted, 2005; Ringov and Zollo, 2007). The findings of the study offer a fresh view on the development path towards implementing sustainability in an organization's culture.

According to Bansal and DesJardine (2014, p.75) most of the strategic management theories focus on a single level of analysis which is detrimental for understanding sustainability of the firm and the system and in particular why some organization are successful but others fail over time. This study contributes also to this call by examining the development of business sustainability over time across the levels of analysis by considering the industry context and its dynamics in which RBS group was operating. The findings of this study acknowledge the complexity of the system in which sustainability practices emerge and are usually implemented. For example, this complexity may arise from differences in organizational functional and hierarchical composition. Next the main empirical contributions are summarized.

7.3 Empirical contributions

Empirically, the study makes several important contributions. The first one concerns the interesting research setting of the UK banking sector, in which theoretical advancement was achieved. The literature review showed a scarcity of empirical research on capability development in a context different from science-based firms (e.g. Bruni and Verona, 2009), service innovation or technology-based companies. Here, my thesis contributes by providing empirical evidence from an unusual but highly important in the business world setting of an international bank in the case of RBS (Pettigrew, 1990; Arend and Bromiley, 2009).

Second, the research study provides empirical evidence in practice of how one type of capability can evolve in form and function due to changes in the interaction between different micro-foundations. Furthermore, the collected interesting set of empirical materials allowed creative ways of theorizing a significantly unfamiliar phenomenon of capability development in institutional contexts before, during and after a financial crisis. It inspired problematization of theoretical ideas and vocabularies (e.g. sustainability-banking capability; transitional capabilities, institutional inhibitors and accelerators) rather than simply pure theoretical speculations (Alvesson and Kärreman, 2007). Next the methodological contributions of the thesis will be discussed.

Another significance of the thesis is in the use of a multilevel analysis. A multilevel analysis has been described as being extremely beneficial for understanding the emergence of a particular phenomenon such as capability development (Felin et al., 2012) as it presents an opportunity to explore the link between micro and macro levels and how their interaction constructs the form and the function of the occurring phenomenon (Coleman, 1964; Kozlowski and Klein, 2000).

Proponents of the multilevel of analysis have looked at it as a key mechanism to avoid fallacious understandings such as assumptions that findings from one level apply to the other levels or the ignorance over the impact of the context on the emerging phenomenon (Ployhart and Moliterno, 2011). However, besides the recognized value of multilevel analysis, usually the ambiguity and difficulty related to the research design and the research data itself discourage researchers from choosing a multilevel of analysis. As discussed in Chapter 4, the applied level of analysis permitted a novel understanding of capability development in the context of changing institutions by focusing on exploring changes in the capability micro-foundations not only on an individual or a single level of analysis but also examining the potential interactions that occur across process as well as structure-levels. The choice of this type of analysis allowed for greater depth, which had not only implications to the capability theory but also implications to practitioners. The latter is discussed in the following section.

7.4 Implications for Practitioners

The results of this study have important implications for senior managers involved in deciding and implementing corporate changes in relation to business sustainability. As Nicolai and Seidl (2010, p.1258) suggest practical relevance of research can take very different forms such as uncovering contingencies, providing recipes for actions or new linguistic concepts. However, in Nicolai and Seidl's (2010) view, generally practical relevance in the context of management science can be instrumental, conceptual or legitimative. Table 7.1 summarizes the general forms of practical relevance while it also presents the specific forms of relevance of this study.

I position some of the managerial implications of this study using their typologies to address relevance beyond the scope of management science but also to practitioners directly as the authors' call suggests. In this regard, I aim to bridge academic rigour with research relevance to practitioners.

Overall, five forms of practical relevance to practitioners can be derived from this study's findings. These are schemes, linguistic construct, uncovering contingencies, uncovering causal relationships and rhetoric devices. They are summarized in Table 7.2.

Table 7.1: Types and forms of practical relevance in this study

Type of Practical Relevance	General Forms of Relevance	Forms of relevance specific to the study
Instrumental Relevance	Schemes Technological rules/recipes Forecasts	Schemes
Conceptual Relevance	Linguistic constructs Uncovering contingencies (common knowledge, superstition, institutionalized practice) Uncovering causal relationships (e.g. unknown side-effects)	Linguistic construct Uncovering contingencies Uncovering causal relationships
Legitimative Relevance	Credentialing (persons or knowledge) Rhetoric devices	Rhetoric devices

Source: Compiled from Nicolai and Seidl (2010)

Table 7.2: Forms and Explanation of practical relevance of this study

Form of Practical Relevance	Brief Explanation
Process model as a Scheme	The developments of a capability development process model as a useful framework for managers' future decisions to change the form or the function of a given organizational capability. Used as reminder to assess practices and processes on multiple levels of the organization in synchrony with the macro context.
Sustainability-banking capability as a new Linguistic construct	The creation of a new construct sustainability-banking capability, which can be used in organizational vocabulary.
Uncovering contingencies as a form of relevance	A regular assessment of the institutional environment and identification of silent and active institutional factors that can be either inhibitors or accelerators is necessary part of the capability formation process. Senior managers need to be aware of their own cognitive biases and inspirations and foster mindfulness through open dialogue with external and internal stakeholders. Top managers should increase the possibility initiatives stemming from lower level of the organization to be a source of new strategic opportunities paramount for new capability formation.
Uncovering causal relationships as a form of relevance	Managers need to be aware of the interrelated nature of capability micro-foundations when investing in capability development. Once a dynamic capability has been developed, managers need to remain flexible and reflective to contextual change and to monitor capability learning in three levels – individual, process and structure levels besides monitoring outcomes. A careful prioritization is necessary and a stakeholder analysis can be an effective tool for mapping out various stakeholder groups and organizing priorities.
The case of RBS as a Rhetoric device	The constructed case study is a valuable story from which future managers in RBS can learn by reflecting on past mistakes and practices. The research raises important questions and implications for business schools and education in general. The information from the RBS case study can be a valuable resource to MBA programmers who would like to engage MBA students in a reflective exercise, focusing on the individual and organizational level factors, which led RBS to a near-failure.

Source: Author

7.4.1 Process model as a Scheme

In Nikolai and Seidl's terms (2010) schemes allow different aspects of a decision situation to be presented into categories. They are usually portrayed graphically but often combined with other forms of relevance to help define different courses of action in a decision situation though they do not determine a particular course of action. One of the outcomes of this study is the process model of sustainability-banking capability. Used as a scheme or a template, it can be a useful framework for managers' future decisions to change the form and function of a given organizational capability (from operational to dynamic, or vice versa). It can be also simply used as reminder to assess practices and processes on multiple levels of the organization in synchrony with the macro context.

7.4.2 Sustainability-banking capability as a new Linguistic construct

Linguistic constructs refer to new concept or metaphor, which offer a new vocabulary or association to practitioners. To date such contributions to management are very limited (Nikolai and Seidl, 2010).

The practical relevance, here, is in the creation of a new construct sustainability-banking capability, which was derived empirically in the course of the research. The meaning presents the bank's general view of sustainability concept in the last phase of capability development. As outlined in Chapter 1, sustainability-banking capability is a higher-order capability, which has a temporal character, and includes practices of change ensuring a transparent relationship with internal and external stakeholders, embedded in a responsible business model that considers business-, ethical-, environmental and social risks in the pursuit of business opportunities.

The construct can be a valuable construct in the future vocabulary of managers in any context of operation, as well as sustainability consultants and researchers interested to examine the business case of sustainability issues or changes in organizational identity leading to more sustainable banking models.

7.4.3 Uncovering contingencies as a form of relevance

This form of relevance influences the way situation, management practices, decisions are perceived. It suggests new or alternative routes of action (Nikolai and Seidl, 2010). A number such forms of relevance are detected in this study.

Mapping through rich descriptions the transformations of the micro-foundations and factors from the institutional context through time can help managers in other sectors to understand which actions and processes in the organization may help secure firm survival and success. Furthermore, the case observations shows that managers need to be aware of the implications that even relatively stable institutional context may have on capability formation in the bank. More specifically, managers need to regularly assess the institutional context and try to identify both silent and active institutional factors that can be either inhibitors or accelerators of practices of change.

The case of the RBS mirrors to a large extent the "Icarus Paradox" as described by Danny Miller or the fact that continuous organizational success can short-sight managers in recognizing the harming effect that their present actions and the changing institutional environment can have on their company's competitiveness and future existence. According to Miller, there are four main trajectories to organizational decline – focusing, venturing, inventing, and decoupling. The near-failure of RBS reminds strongly to decline via venturing where executives' productive attention to details and entrepreneurial, growth-driven spirit can escalate to imperialistic leadership style driven by unrealistic targets (Miller, 1992, p.24). As it is evident from the case of RBS, narcissistic CEO mentality and an authoritative leadership style can lead to organizational myopia and encourage risk-oriented behavior.

Similarly to Miller's argument (1992, p. 30) the case of RBS indicates the interdependent character of individual qualities and leadership style, organizational processes and organisational structure. In this regard senior managers need to be aware of their own cognitive biases and inspirations and to develop capacity of self-reflection.by developing a routine of questioning and critically assessing their own as well as their peers' judgement.

Examples from the case of RBS suggest that executive managers need to be mindful or self-reflective and to foster organizational level mindfulness through continuous dialogues with the internal and external stakeholders but also by remaining aware of the changing contextual dynamics. It has been proposed a key characteristic of mindfulness to be the treatment of past experiences with doubt. Therefore, this is beneficial for capability formation as it enables managers to sense and seize threats and opportunities and to avoid inertia by evaluating what they have learned earlier the organizational life and to identify any areas of distorted cognitive structures (Gärtner, 2011, p.263). Moreover, in such ways, mindfulness increases the organizational endurance by enabling reconfiguration and transformation of social practices to take place.

In addition, encourage top managers to increase the possibility initiatives stemming from lower level of the organization to be source of new strategic opportunities that can be paramount for new capability formation. Internal promotions, structural changes even simply a change of managers' area of responsibilities can nurture internal institutional entrepreneurship.

The research findings challenge the logic of shareholder value, where the focus is on increasing financial returns and financial sustainability, and suggest the need for managers to focus on broader meaning of sustainability, which incorporates also social and environmental dimensions that can be also a path to organizational long-term survival.

7.4.4 Uncovering causal relationships as form of relevance

This form of relevance recommends to practitioners to become aware of unnoticed causal relationships. Several such relationships were observed in the study's findings.

The findings of the study show that managers need to be aware of the interrelated nature of capability micro-foundations when investing in capability development. A potential misalignment between two or more micro-foundations on individual-level, process-level or structure level hinders capability learning and can obscure the process of dynamic capability development. Potentially, the opposite may also be true. Once a dynamic capability has been developed, managers need to remain flexible and reflective to contextual change and to monitor capability learning in three levels – individual, process and structure levels besides monitoring outcomes.

The obvious findings that emerge from the data analysis and the case study construction was the impact of external stakeholders (the general public, government, social movement groups) constituted in the social, political and normative institutional pressures which influenced the capability formation process.

Therefore, the study's findings suggest that the traditional strategic advice in corporate finance –"*Do not put all of your eggs in one basket*" to not be effective in regards to stakeholder management, especially in times of institutional turbulence where financial resources may be restricted. A careful prioritization is necessary and a stakeholder analysis can be an effective tool for mapping out various stakeholder groups and organizing priorities.

7.4.5 The case of RBS as a Rhetoric device for other institutions

This refers to the use of scientifically generated knowledge as a rhetoric device such as stories, frames, metaphors, which managers can use to justify a course of action (Nikolai and Seidl, 2010). The constructed case study as a whole can be a valuable story from which future managers in RBS can learn by reflecting on past mistakes and practices. This assumption was approved during researcher's meetings, which were conducted in order to validate and to ensure the reliability of the constructed process model.

The implications of studied case study of RBS and the development of sustainability-banking capabilities from a near-death experience are not only limited to managers or financial services institutions. In fact, the research raises important questions and implications for business schools and education in general.

In recent special issue of the British Journal of Management, Currie, Knights and Starkey (2010) remind us that business schools have been seen to contribute to "a fundamental intellectual failure" tightly related to maleficent practices of financial institutions. They argue that in the aftermath of the global financial crisis, there is no better time for business scholars to question existing models of MBA programs delivery. However, this requires an approach beyond simplification of business process models but building a bigger picture, reviewing the interconnections between various practices and institutional pressures (Antonacopoulou, 2008; 2010).

In this respect, the information from the RBS case study can be a valuable resource to

MBA programmers who would like to engage MBA students in a reflective exercise, focusing on the individual and organizational level factors, which led RBS to a near-failure. The developed process model shows the complexity and ambiguity related to the development of new type of dynamic capabilities. Such materials will be of a value for subjects discussing transformational leadership, organizational change as well as strategy formulation.

Next section concludes the chapter by presenting some of the limitations of the study and future research avenues.

7.5 Limitations and Future Research Avenues

7.5.1 Limitations of the study

Never ignore, never refuse to see, what may be thought against your thought. (Friedrich Nietzsche).

Although this research constitutes one of the first attempts to investigate processually and on multiple levels the development of organizational capabilities by mapping the occurring transformations in micro-foundations through time, several caveats needs to be addressed.

First, the aim of my research study was theoretical generalizability (Bryman and Bell, 2007; Yin, 2009) rather than a pattern explanation resulting in statistical generalization. However, caution is required when attempting to overgeneralize the findings of the research to other contexts as the foci of this research was the banking sector.

In this vein, the proposed process model depicts the general path through which a sustainability-banking capability emerged in a specific setting. Although it can provide general understanding about the possible transformations in micro-foundations in times of changing institutional uncertainty, it cannot reassure the same occurrence if a different type of capability is studied. However, it accommodates a level of generality in regards to capability redeployment in organizations with a near-failure experience.

Second, in this study I applied a processual research design and analysis. Although this is strength of the research as it allowed me to analyse data from the 2005 to 2012 and to provide a more holistic picture of the capability development process, the difficulties related to the depth of the analysis per given year needs to be acknowledged. In this respect, future studies can explore each one of the identified phases of sustainability-banking capabilities in greater depth. Furthermore, besides my attempt to triangulate multiple and diverse sources of qualitative data in order to decrease the degree of retrospective bias embedded in the historical nature of some of the data, any researcher conducting a processual analysis would face a similar challenge.

Third, as previous research has addressed the context specific nature of organizational capabilities (Ethiraj et al., 2005; Easterby-smith et al., 2009), my study is situated within the UK banking sector and specifically in the case of the Royal Bank of Scotland. Although it is an extreme and unusual case study (Flether and Plakoyiannaki, 2011) and draws insightful lessons for dynamic capability formation from a near-death experience, it may not generalize beyond the banking industry. However, it shares similarities with other financial service industries in moderate environments. Within the studied case, I explore a particular content of an organizational capability – sustainability, by having a more close look at the social/stakeholder dimension associated with the construct, thus the process model and the broader organizational capability learning mechanisms which I proposed may be limited to sustainability-banking capability whether it is an operational, transitional or dynamic at a given period of time. Further research studies can explore different types of dynamic capabilities in diverse contextual areas.

7.5.2 Further avenues for research

My research study does not differ from any other research work in the sense that is has its boundaries and aims to respond to concrete research questions within a specific time period, resources even within a specific word count limit institutionally bounded. As a result it aims to stand as a general building block for further research discussions on the topic.

For example, scholars interested in the development of sustainability-banking capabilities can focus also on other dimensions of sustainability, for example one direction will be to focus more specifically on environmental aspects rather than social or financial aspects of sustainability which were featured in this study.

When exploring the transformations in the process-based micro-foundations towards the process of initiating sustainability-banking capability, emotions such as organizational fear, low confidence and morale appeared to be influential attributes the way processes and practices unfold in the formation process. As this study explores individual cognition in general, future research can explore the role of emotions and their parameters (high vs. low) in capability development.

Furthermore, while in my analysis I discussed some of the implications of institutional factors, inhibiting versus accelerating as well as the dyadic relationship between some of them, some degree of vagueness may still persists due to the scale of the research and its multi-level nature. Future research can attempt to specify in greater detail the type of factors and their influence specific to a given micro- foundation across time.

Moreover, symbols, different symbolic objects and visualization artifacts appeared to be important attributes influencing indirectly capability learning in organizational processes such as communicating and coordinating. Future research can explore on their role in the development process more explicitly.

In the second phase of sustainability-banking capability development, what was characterized as a "transitional capability" was defined. It questioned the assumption of previous research studies associating somehow instantly radical organizational changes with dynamic capabilities. The analysis suggested that extremely turbulent exogenous shocks might lead to internal disturbances and misalignment in the interrelationship between some micro-foundations composing them and can constrain capability initiation across the bottom levels of the organization. Future research studies can further explore the presence of transitional capability in other sectors or even to test the outlined attributes in Table 6.3 statistically in order to check to what extent they are generalizable beyond the explored context.

7.6 Summary

In conclusion, it is considered that the study has achieved its objectives of:

1) Examining the process of dynamic capability development by explicitly looking at the type and interaction between micro-foundational constructs.

2) Exploring the role of the institutional contexts, particularly the degree of dynamism, on the capability development process.

In the same time, the study has shed more light on the need for further empirical, theoretical and methodological developments when the process of developing of a specific type of a dynamic capability is concerned. The current study hopes to provoke the interest of researchers in further disentangling the micro-foundational blocks and learning mechanisms that participate in capability formation and broadly in the survival strategies of organisations experiencing near-failure in their specific institutional realms.

I expect this dissertation to be only the beginning of research in this area. While by mapping the process of sustainability-banking capability, I uncover some of the dynamics in their micro-foundations and how they influence the capability nature; there are interesting avenues for research from the collected process data (e.g. visual materials), which can be a stepping-stone towards insightful future research projects.

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