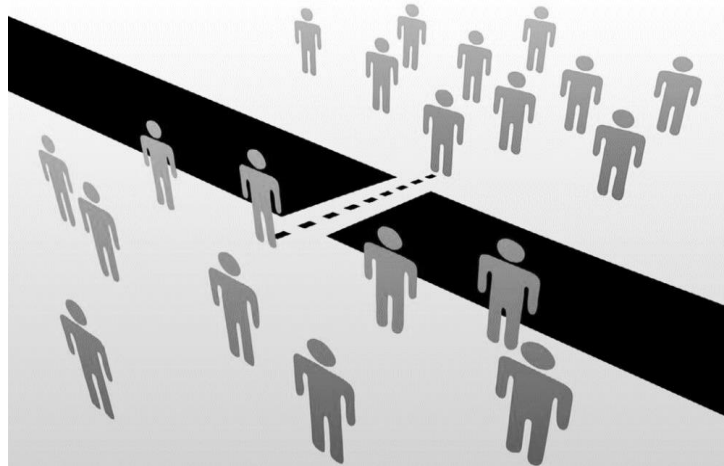# Making Sense of Strategic Change in the Private Equity Value Creation Process

A case study of a PE portfolio firm within the Swedish retail sector

Anton Astner (50041)   **Wei Chen (40632)**

Supervisor: Associate Professor Andrew Schenkel

Examiner: Associate Professor Karin Fernler

ABSTRACT

Traditional views on change management are outdated whilst contemporary practitioners are constantly seeking to improve the success rate of change programs given the historically high failure rate of change. Private Equity (PE) actors and their change capabilities under the value creation mantra seem to contradict this adversity. Drawing from existing PE literature and deploying sensemaking as a theoretical lens, this study unpacks the change implementation process through an in-depth qualitative case study of the value creation process at a PE portfolio company within the Swedish retail sector. From the perspective of change recipients, a traditionally overlooked organization constituent, the study elucidates that, given the PE attributes such as the concentrated ownership structure and the board's stringent focus on monitoring, change recipients settle on the embellishment and elaboration of a performance measurement system as the single point of reference in change. They both consciously and unconsciously engage in socially constructing the change in a fluid flow sustained by monitoring. By demonstrating the importance of sensemaking conditions, focus and clarity of change goals and institutionalized monitoring, the study presents new dynamics in how change recipients embrace and make sense of change.

Key words: Private Equity, Value Creation, Change Management, Sensemaking, Change Recipients, Monitoring

ACKNOWLEDGEMENTS

LIST OF ABBREVIATIONS

APH   Apotek Hjärtat, the portfolio company

E3   The researched change program (*Effective, Simplicity, Unified*)

KPI   Key Performance Indicator

PE   Private Equity

PM   Pharmacy Manager

RM   Regional Manager

SIS   System Implementation Scorecard

CONTENT

1 INTRODUCTION

This chapter outlines the background of the thesis in 1.1, motivation for the thesis in 1.2, focus of the study in 1.3, case studied in 1.4 and the research question in 1.5. Section 1.6 presents the delimitations of the thesis and the chapter ends with the thesis roadmap in 1.7.

1.1 Background: emergent significance of the PE actors and value creation

Since its inception in the 1960s, leverage buyout (henceforth buyout, private equity or PE) has grown exponentially as an asset class. In a buyout, the majority stake of a company is acquired by a private equity (PE) fund using a high level of leverage (Jensen, 1989a; Lichtenberg and Siegel, 1990; Kaplan and Strömberg, 2009). After the major boom and bust cycles since the 1980s, PE is nowadays an important part of the global economy (Fenn et al., 1997; Kaplan and Strömberg, 2008). In 2014, PE returned an estimated of $130 billion to investors and the industry exceeded $3 trillion in global assets (PEGCC, 2015). In Sweden, PE-backed firms generated turnovers equivalent to 8.8% of the Gross Domestic Product (GDP), making it the second largest private equity market in Europe (SVCA, 2012).[1]

Besides its growth and significance, PE has drawn significant attention from academia for its superior returns (Jensen, 1989a; Lichtenberg and Siegel, 1990; Ljungqvist and Richardson, 2003). For example, Kaplan et al. (2014) found out that buyout funds outperformed S&P 500 by three percentage points annually and with a total outperformance of 20 to 27 percentage points throughout the life of the fund. Despite the fact that other studies have shown that returns are overstated (Zollo and Phalippou, 2005; Phalippou and Gottschalg, 2009), the common opinion is that private equity funds outperform in returns (Lichtenberg and Siegel, 1990; Muscarella and

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[1] Calculated by taking the total turnovers of companies owned by private equity as a percentage of the national GDP.

Vetsuypens, 1990; Ljungqvist and Richardson, 2003). This is particularly true among mature PE houses with more than five years' experience (Kaplan and Schoar, 2005; Wright et al., 2008).[2]

Apart from value capturing gains,[3] scholars have credited these superior returns (i.e. total value generated to investors) to operational improvements at the PE portfolio firms (Jensen, 1989a; Kaplan, 1989; Lichtenberg and Siegel, 1990; Muscarella and Vetsuypens, 1990; Palepu, 1990; Smith, 1990; Wright et al., 1992; Harris et al., 2005; Cumming et al., 2007; Kaplan and Strömberg, 2007).[4] In the PE literature, these improvements are labeled under *value creation*.[5] Value creation essentially refers to the implementation of a major organizational change program at the portfolio firm in order to improve its underlying performance and overall competitiveness (Berg and Gottschalg, 2005; Wright et al., 2008).

1.2 Change management and PE value creation

Organizational change is not only key for value creation in PE but also vital to any organization in today's economic landscape. As Beer and Nohria (2000a) point out, organizational change is one of the most embraced terms in modern corporations. Notwithstanding that change is essential for an organization's survival, change efforts rarely succeed (Taylor-Bianco & Schermerhorn, 2006). In fact, 70% of change initiatives fail (Bibler, 1989; Beer & Nohria, 2000b). Cope (2003) showes even more pessimistic results, suggesting a rate of failure that reaches 80% to 90%.

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[2] Despite some major bankruptcy buyout cases recorded, the literature on buyout value destruction is limited (e.g. Wruck, 1994). On the contrary, vast amount of literature on value creation seems to suggest the scope of value destruction is limited or under researched. This positively skewed literature on PE value creation is the point of departure for our thesis.

[3] Value capturing includes factors that do not alter the underlying asset performance but contributes to the return, such as superior access to private information (Lehn et al., 1989, Robbie et al., 1998), the PE actor's negotiation skills and expertise in deal making (Butler, 2001; Barber and Goold, 2007), market timing and multiple riding (Berg and Gottschalg, 2005; Kaplan & Strömberg, 2009). Refer to Berg and Gottschalg's (2005) article "Understanding Value Generation in Buyouts" for more extensive information on value capturing.

[4] PE portfolio firm refers to the company acquired by PE.

[5] According to scholars, value creation consists of financial engineering (Anders, 1992), operational efficiency improvement (Jensen, 1989b) and revenue growth (Wright et al., 2001). Financial engineering refers to managing the balance sheet through an optimal use of capital markets (Anders, 1992). Given its relatively minor significance in today's PE landscape (Kaplan and Strömberg, 2008), the definition of value creation in this thesis will thus exclude financial engineering.

These daunting facts constitute a stark contrast to PE's performance in managing change, judging from their superior historical returns from value creation. Therefore, understanding how this change process takes place at the PE portfolio firms must have meaningful empirical and managerial implications. Research related to PE has flourished in the finance literature for the past decades (Jensen 1989b; Kaplan, 1989; Meuleman et al., 2008; Strömberg & Kaplan, 2008; Acharya et al. 2013) and is in a mature state. PE's value creation mantra as a sub-branch has also received significant academic attention given its criticality in today's PE universe (Gottschalg et al. 2007; Strömberg & Kaplan, 2008; Achleitner et al., 2010; Acharya et al., 2013). However, the quantitative nature of these studies provides little knowledge on how the value creation process, i.e. the change process, takes place, leaving the phenomena largely unexplained. Though more transparency in PE industry is emerging due to the increasing media scrutiny, it has historically been rather difficult to gain access to these firms, somewhat explaining the absence of qualitative studies (Berg and Gottschalg, 2005; Nikoskelainen and Wright, 2007). One of the few exceptions is von Laskowski's (2012) longitudinal study on how PE firms' unique traits influence the sensemaking of managers in strategizing. The literature on PE value creation and the related change management process is therefore, to our best knowledge, limited.

Given this gap in literature, we deem that an attempt to study change management during the value creation process of a PE portfolio firm is interesting and necessary for general practitioners, given the high failure rate of change. It also provides a stepping stone for theorists in organizational change as studies in this field are criticized for their scholarly quality and practical relevance (Kahn, 1974; Pettigrew, 1997; Pettigrew et al 2001; Burke 2011).[6] Moreover, such a study also has values for PE actors. Academia as well as the industry trend indicates that value capturing and pure financial engineering as a means for PE's return is exhausted due to the increasing competition and changing financial and regulatory landscape. For PE actors to justify the high management fees,[7] high riskiness,[8] and therefore high expected returns from investors, PE actors

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[6] Countless trade literature and professional books focuses on manager's action and traits and prescriptive steps (Brown, 2012) have also been criticized for quickly becoming passé and providing outdated relevance for today's or tomorrows new world (Burke & Litwin, 2009).

[7] The PE firm is compensated by an annual management fee (typically about 2% of the capital commited), 20% share of the fund return ("carried interest), and deal and monitoring fees. Refer to "Leveraged Buyouts and Private Equity" (Kaplan and Strömberg, 2009) for more details.

[8] Due to high leverage.

now must shift their focus from deal transaction to operational engineering (Strömberg and Kaplan, 2008) as this will be the backbone of their future success.

1.3 Sensemaking as the focus of this study

In the past four decades, organizational change has been described as a fundamental alteration in the social construction of reality (Berger and Luckman 1966; Bartunek 1984; Helms-Mills, 2003) with a focus on micro organizational social processes and people as agents engage in concrete experiences (Tsoukas and Chia 2002; Balogun et al., 2003; Johnson et al. 2003; Jarzabkowski, 2004). This view suggests that organizational change is a cognitive reorientation of the organization (Gioia and Chittipeddi, 1991) because when an organization is undergoing a strategic change, organizational members are actively or passively engaged in thinking, acting to construct meanings of change (Smircich and Stubbart 1985; Gioia et al. 1994). This stream of literature is called sensemaking and sensegiving (Gioia and Chittipeddi 1991; Gioia et al. 1994; Weick, 1995; Balogun and Johnson 2004). Sensemaking is critical to successful change (Helms-Mills, 2003). When sensemaking fails, so does a change initiative (Maitlis and Christianson, 2014). The vital connection between sensemaking and successful change corresponds to our ambition to study the social and cognitive aspects of change given the high failure rate of change efforts. Moreover, this is also a choice we needed to make in order to narrow down our study and make a meaningful contribution.

Strategic change research traditionally amasses formulation of change strategy in lieu of its implementation (Hambrick 2004), missing the opportunities to discover the reasons for the high failure rate. Similarly, while scholars have developed a broad understanding of how firms conduct change through the top-down approach from senior leaders' perspective (Gioia and Chittipeddi 1991; Gioia and Thomas 1996), little is known about the impact of those in the lower tier of the organization (Balogun et al. 2003; Rouleau, 2005). Calls to better understand the role of other managers, such as middle managers and change recipients (Balogun and Johnson 2004; Maitlis and Sonenshen, 2010), are in line with the increasing evidence that these organization constituents play a crucial role in implementing change programs (Johnson et al., 2003; Jarzabkowski 2004; Maitlis and Sonenshein, 2010). For instance, research on middle managers' role shows that they are both change recipients and deployers of the top-down change initiated by the seniors.

Consequently, their sensemaking becomes key in change implementation (Floyd and Wooldridge 1997; Balogun and Johnson 2004).

Given the research gap, we aim to zoom in on how change recipients become to understand change through their sensemaking process. In this thesis, change recipients refer to organization members outside of the board and the management, i.e. employees and middle managers are considered change recipients. Although the primary focus is on change recipients, we will also cover the leaders' perspective to complement how change recipients' sensemaking is affected to generate a holistic view.

1.4 Case studied

Given the aforementioned focus, a case was chosen for the study (more on choice of case in chapter 3). In brief, the case studied is a PE portfolio company within the Swedish retail sector. It was acquired by a leading Swedish private equity fund – Altor – in 2009 and was sold to a strategic buyer in 2014 with an internal rate of return (IRR)[9] of 27%. This return was attributable to the change initiatives aimed to improve the operational efficiency, revenue growth and business development.

1.5 Purpose and Research Question

The purpose of this thesis is to address the research gap in the PE value creation process (change implementation) and to explore how change recipients make sense of change in the process of change implementation. Serving this purpose, the following research question has been posed in association with the choice of case:

How do change recipients make sense of change in the value creation process of a private equity portfolio firm within the Swedish retail sector?

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[9] IRR is the primary measure of return in buyout, IRR= [Equity Value$_{Exit}$/Equity Value$_{Entry}$] $^{(1/holding\ period)}$ – 1. The PAN Europe buyout net-pooled IRR for years between 1980 and 2013 is 11.41% (EVCA, 2013).

1.6 Delimitations

In order to make the research manageable and to be able to fulfill results that are both reliable and valid, we have made several delimitations. First, the study is narrowed down to only one buyout firm and one of its portfolio companies within the Swedish retail sector.[10] Albeit multiple cases would have been interesting, depth was preferred over breadth (more on this in chapter 3).

Second, though it is hard to draw a clear line on when change planning ended and implementation started in the case studied, the research question does to some extent focus more on the process of change implementation. The focus on implementation is in line with our intention to understand the involvement of both change recipients and change agents in the change program.

Third, only one specific operational improvement program is studied as the proxy for the entire value creation process. Other parallel change programs are not included. The reasons are that the chosen program is the primary constituent of the overall changes implemented and that studying multiple programs could have reduced our intended depth in understanding.

Fourth, it should be noted that the goal of this research is not to contribute to the existing sensemaking and sensegiving theory, but rather to use it as a theoretical lens to elaborate the PE value creation process as our focus is on the social and cognitive aspects of change.

Finally, we must acknowledge that despite its usefulness in understanding organization phenomena such as organizational change, sensemaking and sensegiving theory is still under development. There are no agreed concepts and nor does a general construct system exists (Maitlis and Christianson, 2014), making studies in this area rather interpretive without a precise measurement system. In our study, we hence attempt to rely more on some broad patterns interwoven in the change process. Furthermore, we are aware that sensemaking and sensegiving are reciprocal (Balogun, 2003; Balogun and Johnson, 2005; Rouleau, 2005) and that sensegiving is not only leaders' task (Vlaar et. al., 2008), other organization actors may also engage in sensegiving with others (Maitlis and Lawrence, 2007). However, as our research question delineates, the focus of our thesis is on how change recipients make sense of change.

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[10] The retail industry is one of the largest in terms of share of PE-transactions globally (Kaplan and Strömberg, 2008), making this an interesting case to study.

1.7 Thesis roadmap

As presented in Figure 1, the thesis is comprised of seven chapters. Chapter 1 describes the criticality of change management for contemporary organizations, the historical high failure rate of change and presents PE's observed performance in conducting change through the value creation process. This chapter also elucidates the theoretical and practical relevance, defines the focus and purpose of the study and derives the research question. In order to address the research question, the theoretical framework is developed in chapter 2, where PE and sensemaking literature is reviewed. Chapter 3 elaborates on the research design and the deployed methodology. Empirical data, guided by the methodological strategy, is gathered and presented in chapter 4. Using the theoretical framework assembled in chapter 2, chapter 4 analyzes the empirical data. The final two chapters conclude and expand the findings.

Figure 1: Roadmap of the thesis

2 LITERATURE REVIEW

The literature review consists of four parts. Section 2.1 provides brief review of private equity and how the ownership structure makes it a unique change actor. Section 2.2 presents an overview of sensemaking and organizational change theories. The theoretical gap is summarized in 2.3 and the theoretical framework is synthesized in 2.4.

2.1 Overview of private equity

Private equity as an investment asset class is comprised of venture capital, growth capital, distress investment, mezzanine capital and (leveraged) buyout.[11] Unlike equity investments available to the public with no specific time commitment, the predominant vehicle in private equity is the independent, private, fixed-life and closed-end fund usually organized as a limited partnership. These funds typically have a life span of five years. The role of a PE firm is to raise funds and involve in investing in target companies, developing, growing and transforming such companies profitably through value creation and active management strategies. In contrast to venture capital, which seeks to invest in early stages of a firm, leveraged buyout tends to invest in mature industries, such as manufacturing and retail (Strömberg and Kaplan, 2007).[12]

2.1.1 The buyout process

As shown in Figure 2, the buyout process typically starts with target selection, active due diligence on the target company, the craft of an investment thesis[13] and deal structuring before an investment is made. The value creation phase is the holding period when major change levers are pulled to

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[11] Leveraged buyout or buyout can be further classified into Management Buyout (MBO), in which the current management takes over control of the company from previous owner, and Management Buyin (MBI), in which an external management team acquires the ownership of a target firm. Buyout is the main investment vehicle of private equity firms and is our focus in this study, and therefore, private equity and buyout are used interchangeably in this study.

[12] An ideal buyout candidate has common characteristics such as established business model with stable cash flows, low operational risks (relatively low fixed costs, large amount of tangible assets), minimal CAPEX requirements and capacity for higher leverage.

[13] An investment thesis is a document that entails a few key strategic levers that guide how the buyout actor is going to change the invested company.

transform the invested company and to create equity value. The final process is the exit. Common divesture methods include trade sales,[14] Initial Public Offering (IPO) and secondary buyout.[15]

Figure 2: The buyout process

The focus of this thesis is on portfolio firm value creation, as this phase entails how the change program is implemented.

2.1.2 Value creation in private equity

Value creation refers to the intrinsic factors that alter the fundamentals of the portfolio firm's performance. Two key direct drivers of value creation are: 1) operational efficiency initiatives such as cost cutting, working capital reduction and other efficiency improvement programs to enhance operating margins, cash flow and asset utilization (Jensen, 1989a; Smith, 1990); and 2) growth generation through strategic positioning and non-organic strategies such as buy-and-build to consolidate or establish a leadership position (Wright et al., 2001) and to realize synergies.

In addition, an indirect driver is the parenting effect (Berg and Gottschalg, 2005), a result of private equity as a demanding owner (Wruck, 1989). Buyout ownership intensifies the focus of a firm or a division that might have been less prioritized by previous owners (Wright et al., 2001; Barber and Goold, 2007) and empowers entrepreneurial spirit to unleash the hidden potential and to increase the equity value (Jensen, 1989b). The mechanism of how the indirect driver propels the positive performance effects enabled by the direct drivers is attributable to its ownership structure that reduces agency costs (Jensen, 1989a; Lichtenberg and Siegel, 1990; Cotter and Peck, 2001) and that enables effective change. These two effects are discussed below.

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[14] To a strategic buyer.

[15] To another financial institution, for example, another buyout firm.

2.1.3 Private equity's ownership structure reduces agency costs

As the dominant paradigm, agency theory has been widely employed to study the dispersed ownership structure and the inherent conflict of interests within modern corporations such as public firms. According to agency theory, such a conflict is the result of diverging goals between the company's owner (principal) and managers (agent) (Jensen and Meckling, 1976; Fama 1980; Jensen 1986). Defining an agency relationship as a contract under which the principal engages the agent to perform some services on their behalf, which involves decision making authorities, Jensen and Meckling (1976) argue that as both parties to the relationship are utility maximizers, managers will not act to maximize the principal's interest.

The divergence of interest between principal and agent can be mitigated by several measures but all at the sum of costs labelled as *agency costs*, such as establishing appropriate incentives for the agent, better monitoring to limit the aberrant activities of the agent and improved corporate control (Jensen and Meckling 1976; Fama, 1980). Despite that assumptions made in agency theory about individualistic utility motivation may not hold for all managers, agency costs have been the main critique as the weakness of public corporations. For example, Jensen (1989b, 1993) claims that the inefficient corporate governance and lack of incentive alliance between managers and owners are the cause of issues such as managerial entrenchment and operational inefficiency, seriously impairing value maximization for shareholders.

From an agency perspective, the convergence of ownership structure and the enhancement of monitoring mechanisms post-buyout lead to a reduction of agency costs (Jensen 1986; Kaplan 1989; Smith 1990). The reduction of agency costs during buyout is in threefold.

First, the high leverage and the need to service interest payments discipline managers in a way that the largely passive shareholders could not and curb them from wasting free cash flow, thereby reducing the *agency cost of free cash flow* (Jensen 1986; Kaplan 1989; Smith 1990).

Second, the interest of the owner and the top management is aligned as top management is incentivized by stocks and options (Kaplan and Strömberg, 2008) and is required to make meaningful equity investment in the company, sometimes to a significant level (Muscarella and

Vetsuypens, 1990). [16] The increased equity investment constitutes a higher personal cost of inefficiency (Smith, 1990) and a greater stake in value-creating actions (Jensen, 1989b),[17] thereby making management co-owners. In addition, pay-to-perform (Jensen, 1989b; Anders 1992) and employee share ownership plans (ESOPs) (Wright et al. 1992) as evaluation and incentive schemes to a larger body of managers and employees are also common ways to increase the overall sense of ownership in the company.[18]

Third, the high concentration in ownership means that the new owner is in the position to exert closer monitoring and more stringent control over the company to safeguard the goals (Smith 1990; Singh, 1990). In contrast to the measurement mania by many large companies, Rogers et al. (2002) point out that top PE actors zero in on just a few tailored financial indicators that clearly reveal the value creation of the post-buyout firm,[19] creating clarity in management discussions and spurring timely actions.

2.1.4 Private equity actor as an effective change agent

According to many scholars (Wright et al., 2000; Acharya et al., 2008), the active governance structure makes the private equity actor an effective change agent. This view is further supported by the following notions:

- **More effective board and increased monitoring**. By studying 100 FTSE boards, Acharya et al. (2008) found out that private equity firms have smaller but more effective boards than public firms. Two of the key contributing factors are their focus on key value creation

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[16] The top management is often offered to invest a substantial equity stake in the company at favorable conditions (sweet equity); however, the investment made is generally illiquid until exit (Baker and Montgomery, 1994; Kaplan & Strömberg, 2007). The significance of investment amount by the management comparing to their personal wealth means that their personal financial risks are tightly bonded with the firm's risks (pain equity) (Wright et al., 1992), creating a strong motivation for the management to obtain the significant upside and to avoid the equally significant downside.

[17] One downside of the increased managerial equity ownership is the increase in managerial risk aversion (Fama and Jensen, 1985) which may lead to compromise the firm's long-term performance for short-term gains.

[18] These incentive systems have a positive effect on employee ownership as they become more sensitive to their performance (Baker and Wruck, 1989).

[19] Such as cash flow, return on invested capital and other few key tailored made performance matrixes.

levers and relentless monitoring on performance.[20] Many scholars corroborate this view and state that buyout boards' activeness in monitoring managers of post-buyout firm is a competitive advantage (Jensen, 1989b; Palepu, 1990; Anders, 1992).

- **Managers' entrepreneurial drive and motivation for success**. In addition to what is mentioned in parenting effect, buyout may enable less corporate bureaucracy and centralism (Jensen, 1989b; Butler, 2001; Wright 2001)[21] and more imagery for managers to act as entrepreneurs (Singh, 1990) as they are encouraged to make independent decisions that match value maximization (Jensen 1989a). The aforementioned co-ownership and the tight attachment to the firm's fate constitute what scholars call *the buyout adrenaline*. This energizes and motivates managers to be effective change leaders and to take timely actions towards the pathway of success (Singh, 1990), including making tough decisions such as downsizing, staff replacement and removing unnecessary costs (Butler, 2001).

- **Alignment in value creation**. Unlike other types of ownership structure, buyout partners have frequent interactions with the management (Anders, 1992; Kester and Luehrman 1995)[22], including informal communications that encompass advisory and support. The improved frequency and transparency in communications forge strong alignment in strategic, financial and operational directions (Ibid).

From the agency theory point of view and the recent studies on PE actors' ways of operating, PE literature shows that the value creation process (implementation process of strategic change programs) has a unique trajectory, implying a possibly different change journey for change recipients.

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[20] Other factors include: PE board's involvement in formulating strategies and strategic leadership, freed up time from onerous shareholder management to focus on operations, and deeper understanding in operational and financial risks to explore value maximization rather than avoiding conflicts with mass investors.

[21] For example, relieved from the constrain of being a division of a big corporation (Singh, 1990), i.e. limited managerial priority if performance of such a division is sufficient (Barber and Goold, 2007), leaving improvement potential uncovered.

[22] Buyout firms tend to have closer interactions with management than other ownerships (Anders, 1992), sometimes on a day-to-day basis.

2.2 Sensemaking and organizational change

This section dives into sensemaking in strategic change programs. As motivated in chapter 1, the sensemaking lens brings to the frontier the agency of diverse organizational groups and embodies the *action science* in change (Pettigrew 1985; Argyris et al., 1985) and meanings reconstruction (Weick, 1995). This provides a dynamic view to understand the change process, such as PE value creation process.

2.2.1 Defining sensemaking

With its roots dating back to the 1960s (Berger & Luckmann, 1966; Polanyi, 1967), sensemaking is defined as a cognitive process, whereby individuals attempts to figure out the ambiguity, interpret the environment and subsequently create the environment (Gioia and Chittipedi, 1991; Weick, 1995). In a day-to-day world, sensemaking is a meaning construction process in which people attempt to construct meaningful explanations for situations and their experiences within those situations (Gioia, 1986).

2.2.2 Sensemaking in organizational change

Being developed as a meta-theory (Helms-Mills, 2003) in the past two decades, sensemaking has become particularly useful to analyze change. In the center of a planned change (Denis et al., 1996; Helms-Mills, 2003; Corley & Gioia, 2004), it is human actors who navigate themselves through complex trajectory of thinking, acting and meaning creation around change (Gioia and Chittipeddi, 1991; Weick, 1995; Gioia and Thomas 1996; Maitlis, 2005).

The wide application of sensemaking in studying change management includes strategic change (Gioia and Chittipeddi, 1991; Gioia and Thomas, 1996; Rouleau, 2005) and organizational restructuring (Balogun and Johnson, 2004; Greenberg; 1995; Mantere et al., 2012) in different contexts, for example, academic (Gioia et al., 1994), healthcare (Yu et al., 2005) and R&D organizations (Nag et al., 2007). Common to this stream of literature is the finding that leaders trigger sensemaking by instigating a new direction for the organization and emphasizing the importance of it by undermining the viability of the previous direction. However, a largely overlooked area in this stream of research is the change recipients' role.

2.2.3 Change recipients and sensemaking

The role of change recipients in strategic change has either been neglected or predominantly assumed as resistor (Brower and Abolafia, 1995; Bovey and Hede, 2001; Oreg, 2006). Similarly, the rationalistic school of change predicts that to resolve resistance, a lengthy process for change recipients' cognitive change must take place before their behavior can be altered (Porras and Robertsson, 1992). This research commonly overlooks the possibilities that, despite the hardship, change recipients can construct surprisingly positive interpretations of change (Kelman, 2005). Based on the social psychological meaning-making method, Sonenshein and Dholakia (2012) found out that two types of meaning-making, i.e. strategy worldview and benefits finding, can facilitate change recipients' sensemaking and thereby change their behaviors. This research offers an important departure from the singular view of resistance paradigm and presents that change recipients possess a certain level of adaptability. However, the study neglects the different levels of interaction and the presence of sensegiving tactics, leaving the influence of managerial and collegial communications on their sensemaking untouched.

2.2.4 Sensegiving influences sensemaking in strategic change

Top managers' (particularly CEOs) critical role in strategic change has been well underscored in top-down change (Ginsberg, 1988; Kotter, 1996). As such, sensegiving was developed by Gioia and Chittipeddi (1991) as a complementary but fundamental notion of sensemaking in strategic change. To understand sensemaking of organizational members in strategic change, sensegiving by leaders must be considered (Gioia and Chittipeddi 1991; Gioia et al., 1994; Kaplan and Orlikowski, 2013). While sensemaking is about how people think, sensegiving is the process of '*attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality*' (Gioia and Chittipeddi, 1991, p 442).

2.2.5 Change recipients' sensemaking and organization learning

Understanding organizational change without involving organizational learning is incomplete. Change requires learning, knowledge sharing, knowledge request and the transfer of new knowledge (Alvesson et al., 2002; Newell et al., 2009). Mezirow (1991) echoes this view by asserting that systematic change is transformational learning. In parallel to the organization learning literature streams (e.g. Fiol and Lyles, 1985; Argyris and Schön, 1997), sensemaking scholars have connected the individual cognitive schemata with learning by introducing the

concept of cognitive shift (Nonaka and Takeuchi, 1995; Thomas et al., 1997; Thomas et al., 2001). Cognitive shift means the construction of a new interpretive framework (Thomas et al., 1997). To understand the process of cognitive shift, scholars have examined the effects of different knowledge types and the new knowledge creation process (Nonaka and Takeuchi, 1995).

2.2.5.1 Two types of knowledge

Two types of knowledge that are critical in the organization system are explicit and tacit knowledge (Spender, 1998). While explicit knowledge can be codified and easily transferred, tacit knowledge is unarticulated knowledge that cannot be communicated by verbal means and is, therefore, difficult to transmit (Nonaka and Takeuchi, 1995, Mooradian, 2005).

2.2.5.2 New knowledge creation by change recipients

A key concept in organization learning and sensemaking that has received wide recognition is the new knowledge creation (Nonaka and Takeuchi, 1995; Nonaka et al., 2006). One group of change recipients that engage in such process is middle managers (Nonaka and Takeuchi, 1995; Rouleau, 2005; Balogun and Johnson, 2005). Given their understanding of the strategic direction and vision as well as close contact with frontline employees who possess knowledge of daily working streams, middle managers draw from their *practical consciousness* (Rouleau, 2005) and guide a broader group of change recipients such as employees to utilize their knowledge in a broader context, hence enabling the creation of new knowledge (Nonaka and Takeuchi, 1995). They are therefore knowledge engineers and vital for cognitive shift (Ibid).

2.3 Theoretical gap

Drawing from agency theory (as discussed in 2.1), PE literature has accumulated implications on how the unique ownership structure of PE actors enable them as effective change agents in the value creation process (Wright et al., 2000; Acharya et al., 2007; Archarya et al., 2008). Von Laskowski (2012) (one of the few pioneering studies) corroborates this view and reveals that PE actors do have a unique modus operandi in strategic change and that the board owns the interpretive dominance, i.e. from the change leaders' perspective. However, how such modus operandi in change implementation affects change recipients across the organization has not been examined.

Similarly, a bulky amount of sensemaking and sensegiving literature has focused on top management perspective (Gioia and Chittipeddi 1991; Gioia and Thomas 1996), missing employees as the critical constituents and perpetuators of an organization (George and Jones, 2001) and their sensemaking process in strategic change (Maitlis and Sonenshein, 2010).
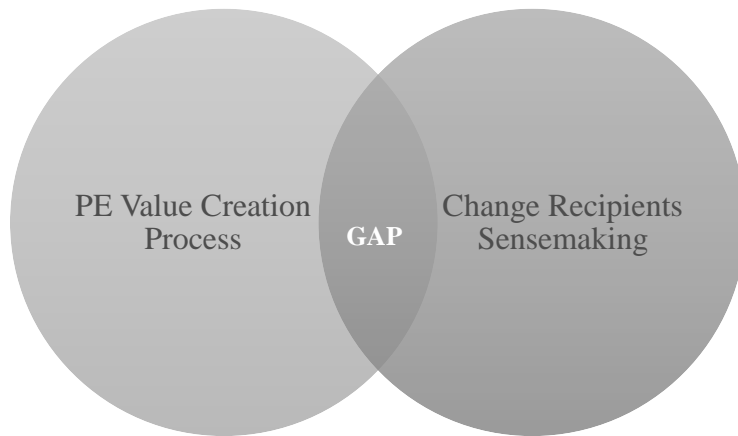
Figure 3: Theoretical gap

As summarized in Figure 3, how change recipients make sense of the strategic change in the PE context has not been studied and therefore constitutes the primary theoretical gap that we aim to address in relation to the below research question:

How do change recipients make sense of change in the value creation process of a private equity portfolio firm within the Swedish retail sector?

2.4 Theoretical Framework

To address the research gap and to answer the research question posed, we have chosen three theoretical models on sensemaking deriving from the literature review in section 2.2. They are presented as Gioia and Chittipeddi's (1991) sensegiving in strategic change (2.4.1), Weick's (1995) sensemaking framework that describes seven fundamental properties of sensemaking (2.4.2) and the new knowledge creation model by Nonaka and Takeuchi (1995) (2.4.3).

2.4.1 Sensegiving and two critical approaches in strategic change

Through the sensegiving mechanism, Gioia and Chittipeddi (1991) state that top leaders are architects, assimilators and facilitators of strategic change, and that their role in change management is essentially "*calling into question an obsolete interpretative scheme, framing a new interpretative scheme in understandable and evocative terms, providing guidance for action toward the incipient change, and exerting influence to accomplish it*" (Gioia and Chittipeddi 1991 p. 446). This concludes the vital connections between change recipients' sensemaking and change leaders' sensegiving (Ibid).

Sensegiving is closely related to change leaders developing an alternative interpretive scheme in the organization (Gioia and Chittipeddi, 1991; Gioia et al., 1994; Maitlis & Lawrence, 2007). Interpretive scheme is the cognitive schemata that map our experiences of the world, filtering both the relevant aspects and how we are to understand them (Greenwood et al., 1980). Two critical approaches deployed by leaders to change the interpretive scheme include (Gioia and Chittipeddi, 1991):

- **Ambiguity-by-design**

  Change requires a pressing rationale for altering the existing world, such as a crisis and threatening contingencies (Mintzberg et al., 1976; Kotter, 1996). In the absence of a crisis, a potent device for precipitating the sense of urgency is by deliberately creating ambiguities for others to question the status quo (Gioia and Chittipeddi, 1991).

- **Visioning**

  An overarching step in instigating a strategic change is CEO's articulation and dissemination of a vision, a preferred interpretive scheme that leads to organization constituents' concerted efforts towards making sense of strategic change and act upon it (Gioia and Chittipeddi, 1991). Visioning thus is an instrumental symbolic construction to create meaning for others and to mobilize actions.

2.4.2 Seven properties of sensemaking

To understand how change recipients make sense of change, we need to understand the key characteristics of individual sensemaking as well as sensemaking in the context of organizations. Weick (1995)'s seminal *Sensemaking in Organizations* synthesized the advancement in

sensemaking theories and presented seven aspects of individual sensemaking work when individuals interpret events, such as organizational change (Weick, 2005). These seven properties are formed as a sensemaking circle shown in Figure 4.
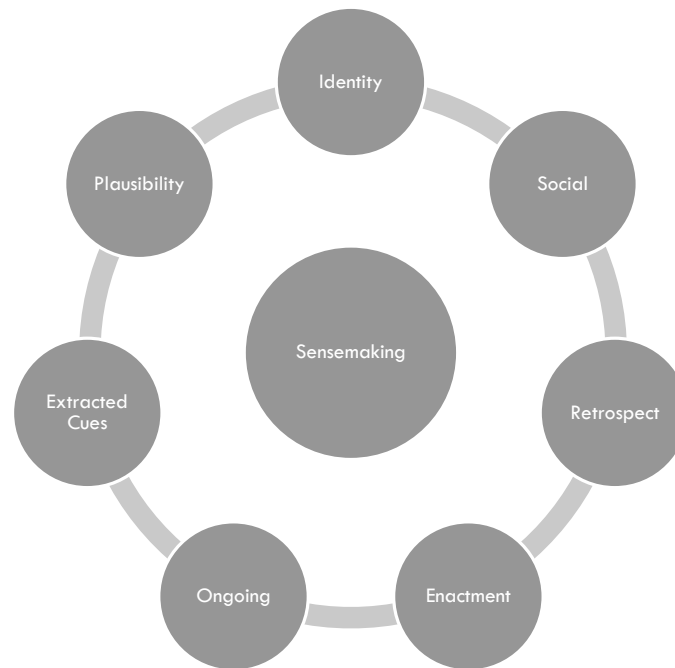
Figure 4: Sensemaking Circle based on Weick (1995)

Plausibility. Sensemaking theory is based on the assumption that plausibility is the key to sensemaking (Weick, 1995), i.e. it is not the amount of the information but rather the embellishment and elaboration of a single point of reference that is linked with a more general idea (Ibid). In the complex world, there are usually multiple cues and meanings for multiple audiences. It is therefore more crucial to start with action and get some interoperation than to postpone action until the interpretation surfaces (Weick, 1995). This notion, despite appearing irrational, is compatible with the bounded rationality model of decision making (Simon, 1959; Kahneman, 2003). It depicts individuals act as *satisficers* who seek a satisfactory solution when information and time are limited, due to the innate human cognitive limitations. Given that people are satisfied to trust a quick and plausible judgment (Kahneman, 2003), sensemakers who seek for meaning reduce the dissonance through a plausible explanation, settle for plausibility and move on (Weick,

1995). This underpins the assumption that the higher clarity of the goal, the greater the likelihood of achievement (Ibid).

Identity is central to sensemaking (Weick et al., 2005). This view denotes how individuals or group members construct the world from the notion of their identity quest - "Who am I?", "Who are we?", i.e. sensemaking is within the framework of individual and organizational identity (Weick, 1995). Weick (2005) emphasizes that an individual's sensemaking is influenced by others through the identify shift.

In their cultural self-representation theory, Erez and Earley (1993, derived from Weick 1995) conclude that the process in which a person develops and maintain his/her changing sense of self is actuated to operation in the service of three self-derived needs: (l) the need for self-enhancement, as reflected in seeking and maintaining a positive cognitive and affective state about the self; (2) the self-efficacy motive, which is the desire to perceive oneself as competent and efficacious; and (3) the need for self-consistency, which is the desire to sense and experience coherence and continuity (Ibid). This very existence and trajectory of these needs affect individual sensemaking in organizations (Ibid).

Social. Sensemaking cannot be done if people are isolated, as sensemaking is a conversational process whereby ideas, values, meanings, beliefs are exchanged in interactions with others, i.e. people always position themselves in relation to others and draw clues from their actions (Weick, 1995). Meetings are one place where sensemaking is bounded to occur as opinions, perceptions and judgments are exchanged (Ibid).

Retrospect. Sensemaking is about looking back to the elapsed experience and modify the perception of that experience to attribute meaning (Weick, 1995). In essence, it means that action takes places before we retrospectively construct values, principles and beliefs. Another implication is that we often act before we think and interpret our actions.

Enactment. The property of retrospect is tightly connected to enactment and the concept 'how do I know what I think until…I see how I act' (Weick, 1979), which is based on the notion that sensemakers engage themselves in the environment and at the same time produce part of the environment (Weick, 1995).

Extracted cues. The act of sensemaking is about how individuals attend to cues inputs from the environment, filter and interpret them and construct a salient relation between the frames and cues to create meaning (Weick, 1995).

Ongoing. Meaning seeking is ongoing and sensemakers are therefore constantly in the middle of things (Weick, 1995).

2.4.3 The new knowledge creation process

Recognizing the importance of new knowledge creation, Nonaka and Takeuchi (1995) argue that the conversion between explicit and tacit knowledge must take place for new knowledge to be created and expanded. This process is summarized in the SECI model (Ibid) illustrated in Figure 5:

1) Tacit knowledge can only be transferred through *socialization*, e.g. through extensive personal contacts and regular interactions.
2) *Externalization* is associated with articulating tacit knowledge with explicit concepts, thus allowing transfer of tacit knowledge.
3) *Combination* means combining explicit knowledge from different organization entities.
4) Embodying explicit knowledge into tacit knowledge can only be achieved through *internalization*, e.g. learning through experiences and making sense of the experience.
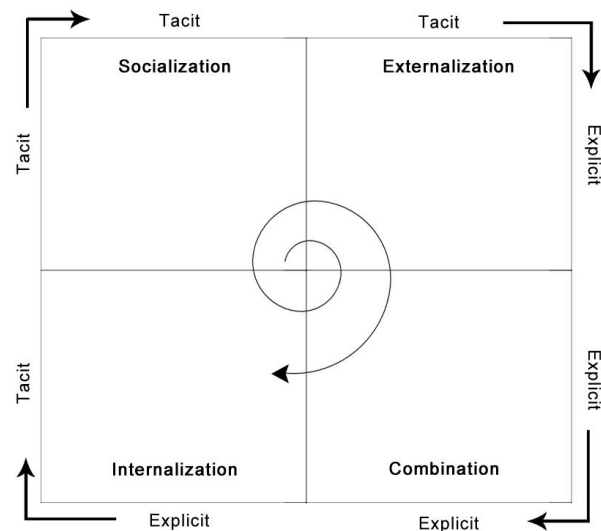
Figure 5: SECI New knowledge creation process based on Nonaka and Takeuchi (1995)

2.4.4 Summary of the theoretical framework
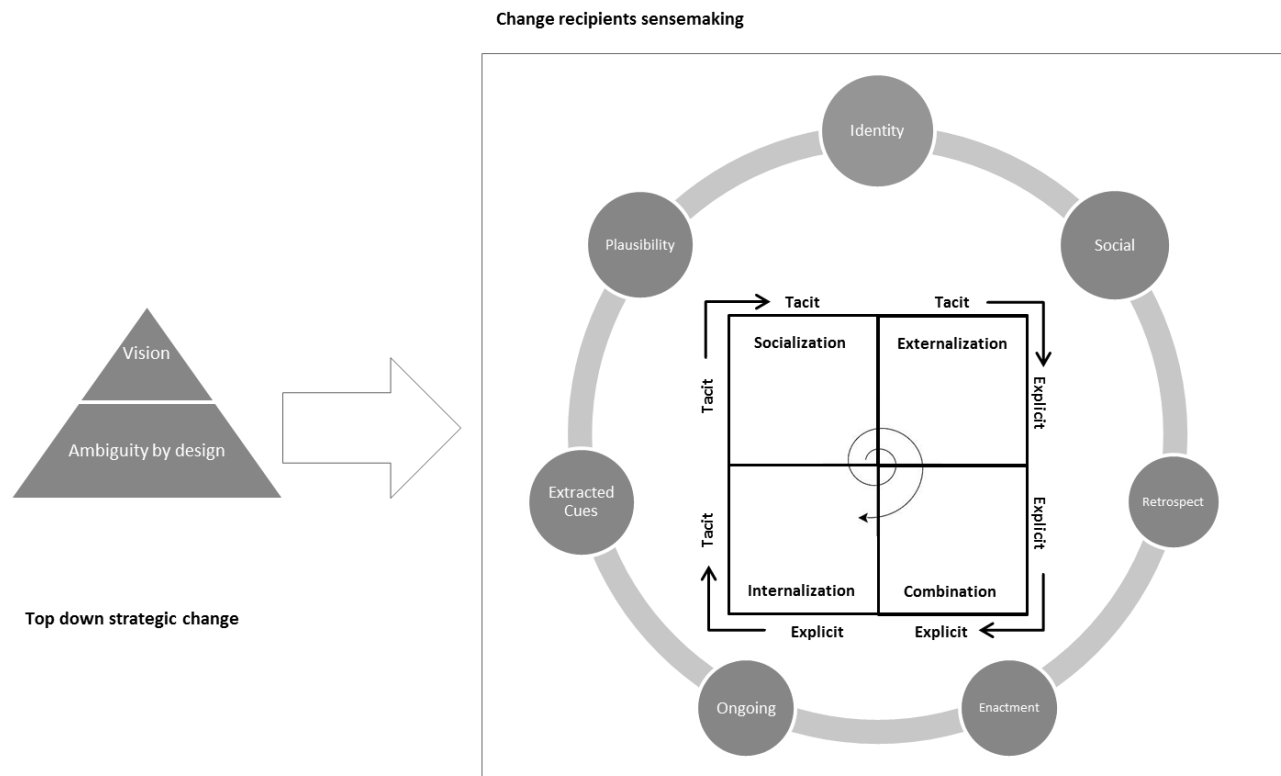
Figure 6: Theoretical framework

Taking a holistic view consisting of different organization layers, we develop a theoretical framework (illustrated in figure 6) that embodies the vital dynamics in the context of change and in the micro organizational social processes that capture people as agents who construct and reinforce interpretations and meanings within organizations (Bartunek, 1984; Gioia et al. 1994; Balogun and Johnson, 2004). First, we look at how the top leaders initiate the change program and produce the sensemaking conditions. Second, we unpack the seven properties of sensemaking to explore how change recipients involve in sensemaking. Third, we examine how change recipients, particularly middle managers, engage in new knowledge creation process to make sense of change.

3 METHODOLOGY

This chapter introduces the methodological approach in 3.1, describes the case selection in 3.2, elaborates on data collection and analysis in 3.3, and ends with methodological issues in 3.4.

3.1 Choosing an appropriate research method

The research question posed is "*How do change recipients make sense of change in the value creation process of a private equity portfolio firm within the Swedish retail sector?*" In order to use an approach that corresponds to this nature and purpose, several considerations had to be made. The approach of getting to the most applicable research technique is presented below.

3.1.1 Qualitative study

As elaborated in the first chapter, understanding of the PE value creation process is limited due to limited access and largely quantitative focus. Literature related to this field is in a nascent state. New studies can thus benefit from a qualitative study approach (Edmondson & McManus, 2007). Furthermore, the phenomenon studied is of a complex nature, in which it is hard to distinguish between the phenomenon and the context, making a qualitative approach via case study appropriate (Yin, 2013). Qualitative approach is also a common method employed by sensemaking studies (Weick, 1995; Thomas, Gioa and Ketchen, 1997; Maitlis, 2005) as sensemaking is "*not about proving hypotheses, generating propositions or creating causal explanations, but more about real life settings*" (Weick, 1995, P. 172).

3.1.2 A mixed method approach: Case study and Documentation

According to Yin (2013), a good starting point for choosing an appropriate research technique can be derived from the nature of the question posed. As the research question intends to understand *how* the process took place and is of an exploratory nature, it is insufficient to use research techniques such as surveys and archival analysis.[23] Experiments are out of scope since they require

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[23] It is worthwhile to mention that these techniques have been used as sources of background information, but only acting a supplementary role.

a controlled environment which is impossible since the change events studied took place between 2010 and 2014. As the purpose is to inquire how change is made sense of over time and to find interactions in this process, as opposed to find frequencies and number of occurrences, documentation (histories) and case studies are better fits (Ibid). This study therefore combines the case study and documentation methods. Using mixed methods, we can partially overcome the deficiencies of the other one used (Denzin, 1989).

3.1.2.1 One case approach

Eisenhart & Graebner (2007) suggest that multiple case studies generally gives a richer understanding of whether the findings are unique to a certain case or are generalizable and can yield a theory that is better grounded as well as more accurate. However, in situations where the phenomenon investigated is within rare or extreme circumstances, a single case approach is more relevant as it can produce more in-depth understanding (Ibid). In valuing the tradeoff between depth (single case) and breadth (multiple case), we deem a single case best fit our research ambition as we aim to raise the explanatory power. As mentioned in chapter one, research on how change recipients make sense of change in the PE context is highly relevant but has not been studied and therefore is considered rare and extreme. Findings from this single case study can provide valuable insights for future research. This also matches what Yin (2003) calls out that a single-case study is warranted if the opportunity to study a highly contemporary phenomenon is previously inaccessible to researchers as access to PE firms have been traditionally difficult.

3.1.2.2 Retrospective case study

While the longitudinal approach is a preferred and common way to conduct change implementation and sensemaking studies (Pittergrew, 1997; Gioia and Thomas, 1996; Balogun & Johnson, 2005; Sonenshein and Dholakia, 2012), this was not possible due to the choice of case (3.2) and time limitations in this study. Alternatively, a retrospective case study was chosen to obtain the full sequence of event and reactions. Yin (2013) verifies that such a method is feasible if actors that participated in the event are attainable and can be inquired about the event. In fact, the retrospective case study was deployed as a plausible option in many sensemaking scholars' studies (e.g. Weick, 1993; Gephart, 1990; Huff and Schwenk, 1990).

The main shortcoming of this method is the constraint of *pluralist* (Pittegrew, 1990) due to the absence of real-time observations, i.e. a retrospective study is not optimal for observing competing versions of reality as seen by actors in the change processes, which are rather complicated. This drawback means that the study has its limitations to reveal temporal interconnectedness and multidirectional patterns. As will be discussed in section 3.3, we attempt to reduce such limitations by conducting in-depth interviews with a critical stance across different levels of organization to enrich and to verify data for developing analytic themes going beyond chronology. Another limitation is that respondents could have difficulties remembering what has happened, particularly in the early phases of the process, reducing the richness of empirical data. One way to mitigate this is through the combined use of documentations, which will be discussed in section 3.1.2.3.

3.1.2.3 Complemented by documentation

Documentation fulfills all criteria posed by Yin (2013), as our research approach is of an exploratory nature, studies a retrospective event and requires no control of the behavioral events. However, the use of official documentation is intended to get a richer background to what actions were taken and complement such information to sensemaking activities in the value creation process, as opposed to rest on it as key source data. Details obtained from documentations were also used as reminders to interviewees to activate their memories on certain events, processes and reactions.

3.2 Case selection

3.2.2 Choice of Private Equity fund: Altor

Given the positive correlation between PE performance and years of experience (Kaplan and Schoar, 2005; Wright et al., 2008), an important criterion for selecting a suitable PE firm was guided by the principle of *more-than-five-years' experience*. Another equally important criterion is the proven track records of value creation. Guided by these criteria, a total of ten PE funds were contacted.[24] Altor, one of the leading Nordic PE funds, was eventually chosen in consideration of

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[24] In Sweden and USA.

geographical preference, timing match and accessibility. Since its inception in 2003, the family of Altor funds has raised a total of €5.8 billion of committed capital and has 27 portfolio companies under management (as of 26th April 2015) in diverse industry sectors (www.altor.com, 2015-04-26).

3.2.3 Choice of portfolio company: Apotek Hjärtat AB

In February 2009, the Swedish pharmacy market was deregulated, ending the long history of state monopoly. The overall objective was to provide the Swedish consumers with better access to medicines, to improve the service and the service offerings and to create price pressure on non-prescription and prescription medicines. By the time of deregulation, Sweden had relatively few pharmacies per capita, with limited opening hours comparing to the international standards and was the only European country with a state-owned pharmacy monopoly.[25] As a means to reform the market and ensure sound competition, the state-run company Apoteket AB[26] was to divest approximately 625 pharmacies of the approximately 950 existing Apoteket AB pharmacies.[27] Meanwhile, the reregulation also would allow state-owned Apoteket AB to be a central player in the new market to assure a good supply of medical products throughout the country. The reregulation of the market was expected to lead to greater efficiency and effectiveness of pharmacies, improved availability and more proper use of prescriptive drugs (Regeringen, 2008). Another expected outcome was the increased competition for strategic store locations and competent personnel (professional pharmacists).

Altor successfully acquired 209 stores for approximately 2.6 billion SEK in November 2009 (3.8 billion SEK pro-forma for the add-on acquisitions of Apotek1 and Vårdapoteket, as well as start-up investments). Under the Management Buy-in (MBI), the new company was established as Apotek Hjärtat (APH). This involved the creation of headquarters, formation of board members and the hiring of the CEO and the management team as well as corporate functions.

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[25] Sweden had one pharmacy per 10,000 residents whilst most EU countries have about 4,000 residents per pharmacy (Sveriges Apoteksförening Branschrapport, 2012).

[26] Apoteket AB was commissioned by the government as the sole retailer of pharmaceuticals in Sweden since 1971 (Apoteksmarknaden, 2015).

[27] Approximately 150 of the pharmacies were sold to entrepreneurs and small business owners.

The APH investment was recently exited and sold to the strategic buyer ICA Gruppen,[28] with an IRR of 27%, thereby putting this investment in the high return category.[29] During the holding period between 2011 and 2014, EBITA increased from pro-forma 300 million SEK to 440 million SEK (Altor internal document, 2015-04-15). The earnings enhancement contributed to estimated 70% of the value increase, clearly indicating the evidence of operational improvements in the value creation process and making it a feasible case for our study.

3.2.4 Choice of change program: E3

The major value creation program - E3[30]- was chosen as the focus of this study. E3 entailed a list of change initiatives (forthcoming in section 4) that generated organization-wide impacts and that required fundamental alterations of employees' ways of working. Consequently, it possesses a thick level of quality empirical data for making the study as revelatory as possible.

3.3 Data collection and analysis

The overall data collection approach was done by conducting in-depth interviews, starting with open-ended questions and then moving on to semi-structured. Expert interviews were complemented to guide the research focus and validate findings. This section presents the data collection rationale and methods, data analysis and ethical guidelines.

3.3.1 Data collection at Apotek Hjärtat and Altor

Two data collection methods were chosen to answer the research question: in-depth interviews and documentation. Although several methods can be found applicable when undertaking qualitative research (Silverman, 2013), interviews were found to be most suitable as our primary source given the retrospective study of a process in which individual accounts are important for explaining how change took place.

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[28] A major retail chain in Sweden.

[29] The median IRR for European buyouts is 6,88% in 2013 (EVCA, 2013).

[30] E3 stands for (in Swedish)"Enklare, Effektivare och Enhetligt", translated as "Simplicity, Effective, Unified".

The in-depth interviews took place between March 9th and May 6th 2015, with the vast majority being face-to-face interviews at the respective firms' headquarters in Stockholm or pharmacies in the vicinity. A total of 19 interviews were conducted, of which four took place at Altor and 15 at the APH (see Appendix 1 for a detailed description). To get comprehensive perspective of both change agents and change recipients, interviewee groups included the board, management, Regional Managers (RMs), and Pharmacy Managers (PMs). In addition, the consultant who worked with the design and initial implementation of the change program was interviewed to obtain an outsider's view.

The selection of respondents was done via the snowball interviewing technique, where suitable interviewees are found as the interview process evolves (Yin, 2013). The snowball sampling method has been deployed in several other sensemaking studies (Maitlis, 2005; Landau & Drori, 2008; Ford & Locke, 2002). The dynamic nature of snowball interviewing along with the ability to find hidden populations (Noy, 2008) was found beneficial in finding respondents that could possess interesting information on the value creation process.

One downside of snowball interviewing is the dependency on the recommendations of previous interviewees, which could converge a biased view as the new interviewees might speak in the same course, thereby fitting the ideal conception of the process (Fielding and Fielding, 1986). To mitigate this risk, different questions were asked from different perspectives in order to obtain different (and sometimes negative) narratives on the process. In addition, two prerequisites were installed for such selection process: (1) the respondent had to have taken part in the whole process and, (2) as new questions emerged across interviews, applicable respondents had to be found. Determining all respondents at the outset would have been inapplicable as valuable information could have been missed out.

Pre-conceptions of what the answers would be were noted before interviews and tested within interviews, this helped to produce new themes and ideas to be tested in the forthcoming interview process, as suggested by Rapley (2004). This was done until similar accounts were presented in new interviews in regards to the categories that had been derived from previous interviews (Bryman, 2011).

Interviews ranged between 30 to 90 minutes, mostly depending on the time the interviewee had. The interviewees were first introduced to the reason for their participation; that we were there to understand how the process had taken place and wanted to understand their role in it as well as their experience of it (both positive and negative). Moreover, everyone was informed that their answers would be treated anonymously, in an attempt to provide an atmosphere where everyone felt that they could speak freely. As we used an emergent theory approach, where the theory was adjusted according to the empirical data found (Silverman, 2013) and with the exploratory approach in mind, the questions asked evolved over time, although certain questions remained the same. More specifically, after asking about their role today and in the change process, we gave them the opportunity to elaborate on their experience of the change process. Since the process happened a few years ago and the initial events were difficult to recollect, follow-up questions were asked in certain cases. These follow-up questions could be formed according to what we knew about the process before interviews started, after having reviewed internal documents (see next paragraph), which is similar to Balogun and Johnsons' (2004) method in their sense-making study. The overall interview approach was thus to start by understanding how interviewees interpreted the change process, which events that had taken place and what implications these had for the process, and then move over to specific questions in relation to their role in the change process, similar to how Fulton (2005) describes as a common way to do data collection in sensemaking studies (see Appendix 3 for the interview guide).

The second form of data gathering was via documentation. Various forms of documentation were gathered, including internal communication on the intranet (both in written and video format), presentations about the planning process, the end result and training sessions and work tools implemented in stores. A total of 21 documents, four videos, six presentations and two work tools were gathered. While this information provided details on the actions taken and the progress, they were rather used to gather more background information from the respondents' perspective (Silverman, 2013) and to help give an overview of the process that could help guide us in interviews.

Documentation of the interviews was done via extensive note taking from both interviewers. Discussion of the notes, summary of key points and interpretation of data was done within a few hours of all interviews, to keep impressions fresh.

One risk of our position as students interviewing about sensitive topics could affect what answers respondents were willing to provide. This risk was mitigated by treating interviewees anonymously (Corbin and Morse, 2003) and obtaining consent from respective organization leaders. Finally, phone interviews were conducted in three cases which could have implications for the answers. However, as described by Sturges and Hanrahan (2004), it is not likely that answers differ when using these different techniques.

3.3.2 Pre-study and Expert interviews

In order to get an initial understanding of the phenomenon studied, six (external) expert interviews and two pre-study interviews were undertaken. All interviews ranged between 1 to 1.5 hours and were conducted face-to-face, except in one case over phone (see Appendix 2 for more details). Experts can in this context be described as persons experienced in the PE value creation process and/or with research experience in areas related to change management. As we experienced a genuine interest in this area from the interviewees and given that their answers only were guiding our research approach (as opposed to be used as empirical data), we perceived answers to be honest and fully disclosing. Three of these interviews took place prior to the interviews, providing an initial guide on forming our interview questions. An additional three interviews were conducted throughout and after the interview process, wherein findings were tested from their experiences. This led to other perspectives on several dimensions, which were not always similar to what the interviewees said during the interviews. This could be related to how they tried to preserve a certain identity (Rapley, 2004) or reflect a different interpretation of what happened. The insights did however provide additional perspectives to consider in the analysis phase. Two pre-study interviews were also conducted to provide background information relevant for guiding the interview questions.

3.3.3 Analyzing the data

To provide a clear structure for the empirical data, we developed several themes. These themes were then used in the analysis, where sensemaking theories are applied to understand them and to answer the research question. This approach resembles Gioia and Thomas' (1996) study of a sensemaking and sensegiving process at a university, in which their themes were understood by applying theory.

The data analysis was designed to capture the interviewees' accounts on what happened in the process, their experiences and thinking process. Content analysis was found applicable as it enables the possibility to inductively find categories that are present in the data (Bryman, 2011). Similar methods have also been used in sensemaking and sensegiving studies (Gephart, 1984; Huff and Schwenk, 1990; Gioia and Chittipeddi, 1991; Dariau et al., 2007). To analyze the data, the notes taken were carefully read several times. The material was first coded by highlighting sentences, phrases and key words (Charmaz, 2013) that were mentioned several times, and then merged into inductively reached categories guided by the theoretical framework. This coding occurred continuously in the data collection process, as this enabled development and revision of categories that could be tested in new interviews until new accounts could be fitted into existing categories.

Once all data had been gathered, the categories were merged into themes. In order to not lose the context of the data and thus miss out on important inter-relationships between categories (Bryman, 2011), we were critical in discussing and testing these categories and themes based on the interview notes and theoretical guidance.

3.3.4 Ethical guidelines

Two ethical guidelines were set-up in order to not cause any inconvenience for those involved in the study. First, the purpose of the research was presented without any hidden agenda to each participant and, moreover, consent was given to use answers provided. Ethical safeguards were thus established (Kent, 1996). Additionally, as we noted that participants preferred to stay anonymous, descriptions of accounts were anonymized (both to other participants and in the empirical data), minimizing the risk of exploitation (Silverman, 2013).

3.4 Methodological issues

For any research to be credible from a scientific standpoint, it should be able to argue for the stability of the findings as well as their truthfulness. In this section, we address the reliability and validity (Altheide and Johnson, 1994).

3.4.1 Reliability

The main problem with reliability in qualitative studies is that researchers make their own personal interpretations of the subject studied. To mitigate this, both researchers took extensive notes, including our personal perceptions of how something was being said, and discussed these briefly after the interviews, thereby minimizing the risk of personal reconstructions (Seale, 1999).

In order to address the study's inter-rater reliability to make sure that data is interpreted in a similar way and thereby enhancing the study's reliability (Silverman, 2013), texts, in the form of notes, were first coded and categorized individually by both of us, to then compare our categorizations. This enabled discussions on the categorization of data and enhanced the change that it would have been done similarly if someone else would have tried to categorize this data, enhancing the study's transparency and replicability (Hammersley, 1992). In relation to understanding the data, sets of data were also tested on experts to deduce its categorization and how it could be interpreted (See section 3.3.2). However, the content analysis in use brings the risk of losing sight of where the data (codes) is within the whole (Bloor, 2004), thus creating a risk to miss out on the bigger picture. Despite this, as both researchers coded the data separately and derived similar codes and categories, in conjunction with cross-checking of categories with experts, the risk of missing out on the bigger picture was reduced.

3.4.2 Validity

Validity refers to the truthfulness of the findings, whether they represent the reality of the phenomenon studied (Hammersley, 1990). Depicting sensemaking is a reflection of individuals' accounts of their perceived truth, thereby making it hard to validate one objective "truth". Rather, the truthfulness of the findings represents the truth as perceived by the respondents. More specifically, the phenomenon was first of all studied by exploring how the process occurred in one case in the PE context. Thus, the ambition is not to generalize the findings beyond this particular

case, as that is outside the scope of the research question, but rather to explore a nascent research and provide insights that can be used in future research. In light of this background, the text below addresses the study's validity:

I. The analytical method employed, content analysis, aimed to capture categories (themes) representing the whole picture of the sensemaking process. In order to make sure that the "true" reality was captured, data-collection progressed until new respondents provided similar accounts, which resembles what Silverman (2013) refers to as reaching validity through the criteria of falsifiability. In other words, accounts that provided deviant information were followed up on in forthcoming interviews, to make sure that the bigger picture was captured and new interviews no longer provided new information.

II. Triangulation could be a problematic source of validation if it is assumed that two sources of information that give similar results provide the objective truth, as the context can affect the account (Denzin, 1989). In our case, where multiple methods were employed, these were not used to provide the objective truth by adding another source of information (i.e. documentation). Rather, the additional information source was there to provide more richness in terms of adding depth and breadth to any inquiry throughout the data-collection process and the analytical phase (Denzin and Lincoln, 2000).

III. A major risk for a study's validity is whether the construct measures what it is intended to measure or not. The posed research question aims to investigate sensemaking in the value creation process within the PE context. Thus, the construct applied, i.e. sensemaking provides appropriate theoretical lenses given this ambition. However, it is important to acknowledge other potential constructs that could have better captured the truthfulness of the phenomenon (Lamont and White, 2008).

4 EMPIRICS

This chapter presents the empirical data gathered in the data collection process. Section 4.1 through 4.2 introduces background of the case and the change process. Data gathered through the interviews is presented in section 4.3-4.6.

4.1 Translating the investment thesis to value creation actions through E3 Program

4.1.1 Defining the value creation levers

As a result of the pre-investment due diligence and MBI planning and analysis, five major value creation levers were identified to drive the transformation. The levers were: improve over the counter and traded good gross margin, grow the higher profit sales of traded goods, increase personnel efficiency and roll-out new stores (see Appendix 4 for more details).

Along with these value generators, Altor expected that vertical integration with own distribution operations, e-commerce and margin improvement from parallel import would provide potential for strong cash flow and good returns. As part of the goal alignment process, both board members and management team made considerable personal investments in the company.

4.1.2 Launch of the organization-wide Change Program – E3

In addition to adjustment in strategic positioning to improve gross margin and roll out new stores, an organization-wide change program was conceived to operationalize the value creation levers such as efficiency and revenue enhancement. Following a four-stage change process (as shown in Figure 7), the change program titled E3 was launched.

| Analysis | Design | Pilot | Roll-out |

Figure 7 – Four-Stage Change Process

External consultants were hired in the analysis and design phase, whereby current situations were

problematized and key areas of improvements in store operations were identified quantitatively and qualitatively. Corresponding to the purpose of E3 and the identified problems, a list of change initiatives (see Appendix 5) was developed by the management and ultimately approved by the board. These change initiatives, covering organizing, governance, capabilities, processes and corporate culture, required organization members within multiple-organizational hierarchies to change the way they work.

Given the magnitude of change and the number of pharmacies nationwide, E3 followed a roadmap entailing pilots and top-down training. Two pharmacies were chosen as pilot pharmacies given their strategic importance and impact potential. Their participation in the pilot was documented through films which were used as a key source of communication during the subsequent implementation nationwide. "Train the Trainer", a major training program was also implemented to equip managers and employees with tools, work structures, new knowledge and skills needed to fully implement E3. The training program was carried out following a progressive scale (see Figure 8), whereby vital change leaders – Regional Managers (RMs) - who oversaw change program in his/her region, were trained first. Pharmacy Managers (PMs), who reported to the region were then trained by RMs and held the accountability to implement the training and change at a local level.

RMs received E3 training | RMs had overall responsibilities for the roll-out in each region, including training the pharmacy managers. | PMs were responsible for the implementation and training of employees in the local pharmacy | PMs to support and share experiences with other phamacies
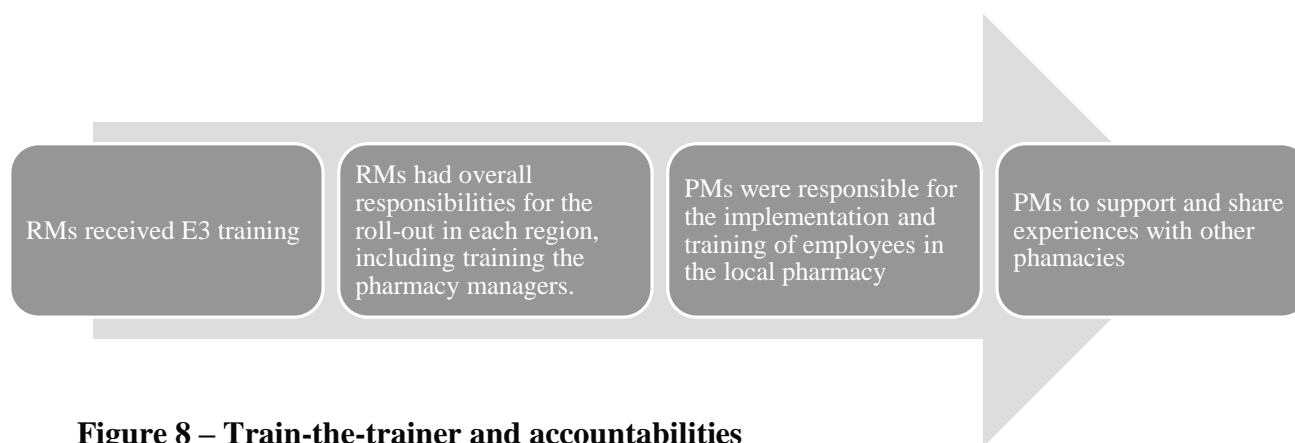
Figure 8 – Train-the-trainer and accountabilities

"We were excited about the work tools and techniques introduced, we started to realize how everything could make sense as we obtained tools and support."

(RM 2)

4.2 Seeding the ownership in E3

In anticipation of the magnitude in cultural change post-buyout, the board decided to offer the ESOP (Equity Sharing of Profit) all the way down to PMs to increase the ownership in E3 (see appendix 6 for the organization chart). Unlike in many other acquired portfolio firms, lower-level managers (RMs and PMs) were offered to invest as they were deemed as key actors in making the change. 300 managers were offered the possibility to invest and 200 managers took the opportunity. In contrast to the ESOP, two thirds of the RMs were reallocated or replaced as they were not interested in leading the change. A similar process also occurred at the pharmacy level, where some PMs were reallocated or replaced.

4.3 Constructing a rigorous performance management system under E3

Once E3 was rolled out at certain pharmacies, key performance indicators (KPIs) were immediately initiated through the company-wide System Implementation Scorecard (SIS) – an overall performance measurement that tracks the status of pharmacies that have implemented E3. SIS was comprised of both a qualitative and quantitative check-up, such as awareness and understanding of sales, observance of customer interaction, implementation of meeting structure with sales focus, sales numbers and efficiency index. Each status was visualized in green, yellow and red (traffic lights), indicating three levels of performance (good to bad) and different managerial attention. Mystery shoppers was another monitoring mechanism which validated the change outcomes by anonymous visitors comprised of key managers and consultants. These visitors would act as customers and evaluate the pharmacy performance without the pharmacy employees knowing their real identities. Results from SIS and mystery shoppers comprise the core meeting agendas for key meeting forums throughout the organization hierarchy (all the way to the board), as shown in Table 1.

Table 1 – Follow up structure

Meeting Format	Frequency	Level	Owner
Kickstart	Daily	Pharmacy	PM
Sales Meeting	Weekly	Pharmacy	PM
Pharmacy Performance Meeting	Monthly	Pharmacy	PM/RM
Region Performance Meeting	Monthly	Region	RM/Management
Overall Quarterly Review	Quarterly	Company-wide	Board

In relation to SIS, store performance charts were set up to illustrate the performance and a to-do list was developed to track said actions at the pharmacy level.[31] These physical illustrations gave pharmacists a sense of clarity in what E3 embodies.

> "*There is a closer connection and clearer definition of what we do in our everyday work as we became to better understand what matters to the pharmacy by looking at the numbers and traffic lights(PM 2)...made us particularly proud when we know every step we made impacted customer satisfaction and that we can do better than our competitors by contributing our own ideas(PM4)...this would not have been possible without a simpler way of understanding the business through numbers and someone seriously measuring what we do(PM1)...it was really good to know exactly what should be done and how we were doing (PM2)...you could see how processes became smoother, that customer satisfaction went up while we also improved our results (PM1)...direct benefit of that is that we were able to stay focused and a stronger sense was created that we are so close to our company owners (PM3).*"

(PMs)

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[31] A whiteboard was usually set up at pharmacies to show the performance status and listing of actions.

4.4 Time to change is now

The change process was intended to transform a state-owned monopoly into a customer-focused organization in the freed-up pharmacy market in Sweden. The management actively stirred up the organization-wide sense of urgency by referencing the increasing competition. Simultaneously, the organization ambition was clearly expressed by the management that APH wants to be the leading national pharmacy chain. At this critical point of timing, the management regarded E3 as not only a remedy but also the pathway to success.

> *"It was toughened competition in the market but also opportunities for us to be the best…we could not afford to wait and see…to change according to E3 is the message we need to repeat as many times as we can."*

(Management)

E3 was promoted through extensive communications, both physically and virtually. Physically, a nationwide conference marked the start of the communication effort where the CEO invited all managers to explain the vision to be the future pharmacy leader and the upcoming changes needed to realize the vision. RMs and PMs recalled that the early communication was very energizing and pivotal for the change.

The top leaders also acted as real ambassadors of E3. Their frequent visits in stores fueled the energy and also made the anticipated change clearer.

> *"It is not like it used to be, we didn't even know who the CEO was. Today we are really close to APH's support office and you can even talk to the CEO. He listens to you and has been out in our store several times. Even the management team is out in stores several times a year(PM4)…it's very exciting to see that our leaders really care(PM2)…(their presence) really gave us the feeling that we are on the E3 agenda(PM3)."*

(PMs)

Virtually, the intranet was used to communicate E3 via films and articles. Four videos were produced and spread as the implementation proceeded. As illustrated in Figure 9, these short films contained themes relevant for different implementation phases and were distributed to PMs who

were obliged to play them during the store meetings. Subsequent discussions about E3 and specific topics mentioned in the films were led by PMs.
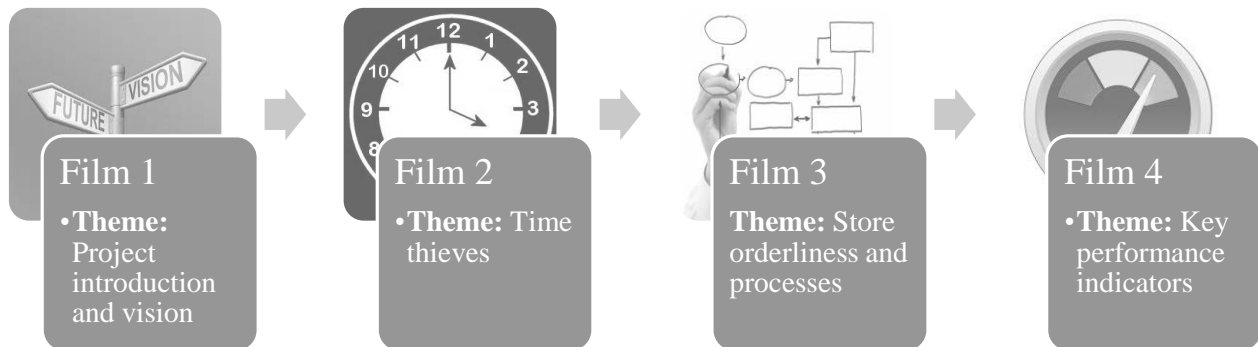
Figure 9 – Contents of E3 videos in implementation phase

In addition to the distributed films, articles were written and distributed on the intranet under the "E3-column". Articles touched upon in-store-best-practices in relation to E3, CEO information (CEO-online) and an idea-box for E3 where suggestions could be posted. Considering communications as a key in achieving the change, one board member stated: *"The CEO really 'over-invested' in communications."*

> *"Everyone was talking about E3, you saw E3 everywhere when you come to work (PM3)…it began like stories, but after hearing it for so many times, we started to feel it's impossible to separate the new APH and E3 (PM4)."*

(PMs)

Apart from communications, new meeting forums were incorporated to facilitate that E3 was talked about everywhere. The meeting structure (4.3) forced discussions about sales, efficiency, customer satisfaction and progress in E3. E3 was discussed both top-down and horizontally as it became the key agenda for everyone and everyone was working with it.

The combination of continuous message from the top and the incorporation to the daily work streams changed how the pharmacists perceive the new external environment as well as how they interact with peer pharmacies.

"At certain point, we started to digest the messages and resonate what the leaders say about customers and the business(PM3)...what's more, there is peer pressure from other stores as all the pharmacies were brought together to achieve the same goal(PM2)...we did not want to perform worse than others, I cascade this sense of urgency to the pharmacists and ask them how can we do better(PM1)."

(PMs)

4.5 Mixed reactions

The message to change and to be the best was effectively spread out across organizations. The reactions on E3 were however not only positive from the lower organization. The new way of working according to E3 included store personnel being attentive to customer experience, waiting time, service levels, store tidiness and to work proactively with sales in store. This posed challenges to pharmacists' long preserved role. Historically, being a pharmacist in Sweden meant being a knowledgeable and trustworthy expert and salesmanship was perceived to undermine the credibility of being an expert. The transition from passive way of reacting into active way of thinking and doing was difficult, particularly considering several previous change initiatives during the state-ownership had not been clear in terms of objectives and priorities, thereby creating ambiguity in what to do and a feeling that directives are not necessary to follow as they will end up not being monitored anyways.

"Before pharmacists were considered as specialists, they couldn't even talk to the customer, and sales was a taboo subject. Thinking about efficiency and money was completely new for store employees. Particularly for older employees this concept was new as they had been working differently for such a long time (RM 1)...some adopted the attitude of wait and see as they believed that the mandate to change would not last (RM2."

(RMs)

On the contrary, certain employees perceived E3 as an opportunity or changed their view as they got more engaged in E3.

"Pharmacists are highly educated persons. Despite that incorporating selling somehow contradicts with their old way of working and self-perception, it was not difficult for them to get the big picture that customers' well-being is in line with their profession principle – helping customers(RM 2)…when such attempts failed, the consequence became clearer now. For pharmacists, the fact that they are not helpful (effective) was threatening to their own value system (RM 3)."

(PMs)

4.6 Monitoring and the change curve

"Monitoring is the best tool for change, you cannot have the best vision without the right way to monitor."

(Board Member 1)

"Conversations around E3 were everywhere (PM5)…there was no way to get around it when managers relentless follow up on E3 standards (PM3)."

(PMs)

E3 not only defined what the change is, how to implement the change, but also was the governing mechanism exercised by the board to drive change. The senior leaders' set-in-stone belief that APH can become the leading pharmacy chain and the stringent monitoring system (4.3) had profound impacts on how the organization constituents behaved in two change processes.

First, one critical evolution in the constant wave of monitoring was the emergence of behavioral changes as a profit-making organization was being set up and employees started to experience what it feels like to work in the commercial context.

"We couldn't wait to negotiate pharmacists into doing all the things all at the once (RM 1)…despite everyone knew change was on the way, I knew some were forced to do so because we could not deliver the targets without doing it and repeating it. It helped convincing these resistors by showing how other similar stores had managed to change (RM 3)…and then there are mystery shoppers out there who measure our performance like

invisible hands, but they (pharmacists) really got the point when our operation was simplified, inventory was better organized, for example, picking up the prescription drugs before the pharmacy opens in the morning actually mitigates long waiting queues during our business hours (RM 2)...in the end, they were freed up from the unnecessary chaos otherwise, now they have extra time to talk to customers and even start to suggest new ideas for improvements(RM 3)...these fresh experiences were like guides, it all made sense in the end (RM2)."

(RMs)

Drawing lessons from actions particularly contributed to the behavioral change in proactive customer service and selling, according to PMs:

"The service level was poor prior to deregulation and the employees could take a break for half an hour, it didn't matter how long the queue was, let alone customer experience (PM 4)...it's like changing a bad habit, when there is someone pushing you, you are reminded and act on it (PM2)... we started small and greeted 5 out of 1000 customers, I then followed up on greeting more customers. After 10 weeks greeting a customer is in your backbone. Similarly, rather than to start pushing my pharmacists to cross-sell skincare products when someone had a cold, I emphasized that they should offer similar products that the customer most likely would need (PM3)...it became natural for us to understand we can improve our customers' well-being by providing our knowledge, talking to them and helping them find better solutions (PM 1)...without converting all these abstract business behaviors into something measurable and trackable and without someone out there constantly seeing us how we improve, we could easily fall back to the slack status. The daily kickstart-meetings and periodical check on us really helped (PM2)."

(PMs)

Throughout the E3 implementation process, certain pharmacies lost tracks in keeping up the E3 standards. RMs were in critical position to keep the change going despite of ups and downs. They viewed these performance fluctuations as norms and considered that monitoring was a prerequisite for E3 to catch lower employees' continuous attention.

"For some employees, it was really hard to see the business side of pharmacy in the beginning, when we experienced again and gained the new priorities measured by E3, we became better and better by practicing. In the end, it was like auto-pilot mode (RM1)…stamina is not something we could create alone without the consistent support from the top. We have seen certain pharmacies fallen back after a while. It was the ongoing management's attention that gave small but important changes along the way (RM3)"

(RMs)

Another outcome of constant monitoring is the acceleration in employees' learning process, primarily through active practices and informal channels. Given the pressure to meet the E3 goals, pharmacists had to learn new things much faster than they used to do. It appeared to be a chaotic process as they not only had to break the old inertia but also had to find a way to apply what they learned or even find the learning path by trying and failing several times. This involved learning from peers through their own social or organizational networks.

"APH was the first pharmacy company in Sweden to implement Pharma Suite[32]. This was an important efficiency parameter in E3. We got one-time training and were expected to be masters. There was a lot of pressure to deliver. What happened unexpectedly in this chaotic process was that we started to just do it and tried to figure out the best way to handle the new IT system. Of course there was a lot of stress. But we also had to think outside of the box. With the help of RMs, we got a lot of helpful knowledge from other stores. Sometimes PMs would lend out employees to other stores to help facilitate the learning in E3. In real emergent situations, I simply called the other PMs how they handled such situations."

(PM1)

This way of learning how to operate effectively from top-down but also laterally can also be found in how pharmacists improved their business acumen through E3 and result-based conversations.

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[32] A prescription drug IT system

"A lot of people were more involved in the result of each of the pharmacies. Daily follow-up became something that people think is fun. People want a goal to work against and you want to know that you're doing a good job"

(PM 3)

Through E3, APH improved both employee and customer satisfaction levels significantly and is now referred to as "Hjärtats arbetssätt",[33] which is described as the natural way of working for APH's employees today. Details of APH's new "Way of Working" can now be found in the E3-Handbook, which accumulated the best practices throughout the E3 implementation.

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[33] Translated in English: Ways of Working.

5 ANALYSIS

This chapter provides the analysis of the empirical data gathered.

As outlined in Table 2, the analysis chapter is comprised of three parts guided by three components described in the theoretical framework (2.4.4) to develop answers to the research questions. First, through Gioia & Chittipedi's (1991) *sensegiving* lens, we analyze how the new organization reality and interpretive scheme were established to guide the change recipients' sensemaking in section 5.1. Based on Weick's (1995) seven sensemaking properties and empirical data, section 5.2 to section 5.4 dives deep into the processual, contextual and interconnected aspects of change recipients' sensemaking. Finally, the new knowledge creation process and change recipients' sensemaking are analyzed through the SECI model (Nonaka & Takeuchi, 1995) in connection with the sensemaking properties.

Table 2 – The theoretical framework and its connectedness to empirical data and analysis

		Section 5.1	*Section 5.2*	*Section 5.3*	*Section 5.4*	*Section 5.5*
(Gioia and Chittipedi, 1991)	Vision	Section 5.1				
	Ambiguity by design					
Weick (1995)	Plausibility		Section 5.2.1 & Section 5.2.2			
	Identity			Section 5.3	Section 5.4.1	
	Social				Section 5.4.2	
	Enactment				Section 5.4.3	
	Extracted cues					
	Retrospect					
	Ongoing				Section 5.4.4	
Nonaka and Takeuchi (1995)	Socialization					Section 5.5
	Externalization					
	Combination					
	Internalization					

5.1 E3 as a new interpretive scheme for sensemaking

The inauguration of E3 started from a redefined organizational reality. Amidst the increasing competition in the pharmacy market after deregulation, change agents made it clear that APH is bound to lose business to competitors if old passive behaviors are to be allowed and if a business organization is not established. Beyond survival, APH must now act strategically and improve its operational efficiency and customer orientation to be a future market leader. The consultants' engagement and pre-study in defining major inefficiency areas created a burning platform that magnified the current situation of APH's inefficiency as a major road blocker in relation to the envisioned "future leading pharmacy brand", thus concretizing and triggering the organizational wide dissatisfaction and sense of urgency. Such an *ambiguity-by-design* (Gioia and Chittipeddi, 1991) sent an evocative signal to the organizational constituents and sharpened their awareness that the need to change is high and that old ways of thinking are outdated.

The origination and expressive vision of E3 constituted a symbolic and fundamental move of the CEO in resolving the dissatisfaction and operationalizing the value creation levers defined in the investment thesis. The abstract of "who we are and how do we do it" were succinctly translated into the three words "Effective, Simplicity, Unified". By explicitly stating how the situation should be comprehended, these three words summarized what change is all about and how change should be interpreted, similar to what Gioia and Chittipeddi (1991) describe as a new interpretive scheme through *sensegiving* by the CEO.

This new interpretive scheme took on a life of its own as it was subsequently disseminated across organization boundaries through multiple communicational platforms designed by the management. Change agents' repeated and continuous organization wide communications helped facilitate the social construction of E3 as a representation of the new APH. This new organization reality drew change recipients into leaders' change agenda, converting the top-down change into a hybrid of strategically top-down and participatively bottom-up. The CEO online, idea box of E3 and the E3 launch films all provided the vital platforms that enabled various degrees of engagement from the lowest level of organization hierarchy (the pharmacists) to contribute to E3 and co-create the preferred redefinition of organizational reality.

Another contributing factor to the materialization of such a reality is the board and the management team's increased visibility through numerous personal visits to pharmacies and several nation-

wide PM conferences. These symbolic actions provided strong confirmations to change recipients that those distantly said words and expressed views about E3 (what organization members hear from the corporate intranet or from their managers) are not just nice wishes but real beliefs about APH's raison d'être – a future leading Swedish pharmacy chain that puts customers' experience and well-being as the highest priorities, a unified and effective team that supports each other. Such an action-based visioning (Gioia and Chittipeddi, 1991) not only facilitated the buy-in by organization constituents, but also enhanced the notion of E3 as a new interpretive scheme.

CEO's sensegiving constructed a fundamental meaning construction process (Gioia, 1986) that guided change recipients to adopt E3 as the new interpretive scheme and that enabled the co-production of the new organization reality that rendered in the CEO's vision.

5.2 SIS as a plausible sensemaking account in E3 meaning creation and diffusion

Unlike ambiguous change initiatives taking place prior to the buyout, the introduction and reinforcement of SIS meant that change recipients no longer had to wobble through ambiguities attached to the old organization (such as unclear goals and processes). Instead, SIS simplified the understanding of common goals prescribed in E3 (described as the ease to understand numbers and traffic lights in empirics) and unified the pharmacies through the goals embodied in E3. The two functions of SIS in assisting change recipients' sensemaking are described in 5.2.1 and 5.2.2.

5.2.1 Using SIS as a strategic language to simplify meaning creation and diffusion in E3

At the center of change in E3, SIS constituted a rational sensemaking account that concretized what E3 is and highlighted the "facts" that are closely monitored against the believed becoming trajectory of APH defined in the investment thesis and embodied in the top managers' belief. Transforming a series of change initiatives and abstract change goals to a numbers-driven matrix provided change recipients an easy to comprehend point of reference (Weick, 1995) to link their daily work to the desired change prescribed in E3.

The clarity of goals embodied in SIS provided the change recipients with a quick and plausible judgement to settle (Weick, 1995; Kahneman, 2003) as they now had a clear focus of their work.

For pharmacists, SIS gave them the focus and priorities of the working days and saved their time in resolving unproductive events; for PMs it became particularly clear how operations were improving, whereas higher level managers could detect deviations and facilitate support for poor-performing stores. SIS therefore turned these individuals into *satisficers* (Kahneman, 2003) as they became more comprehensible of their work under the umbrella of E3.

Change agents' consistency in using the same reporting tool across all pharmacies helped guiding recipients' interpretation of this new situation into a common interpretation of reality that store performance matters and that even small changes are visible. Such visibility in actions and results from the permeation of SIS in change agent's and change recipients' attention, combined by the ubiquitous presence of SIS in all strategic meetings (from pharmacy level all the way to the board), constituted a common strategic language that drew change recipients into the E3 conversations and forged the performance oriented mindset. This enabled the mass for meaning creation in E3.

The dominance of this new language provided the navigation heuristics for both PMs as well as pharmacists as they interacted with it and made the connection between their work and outcome captured in SIS. This view will be further supported in section 5.3.1, where how SIS plays an important role in changing change recipients' perceived identity in sensemaking is analyzed, and in section 5.4.2, where SIS as an enabler of social interactions in E3 is presented.

5.2.2 The power of exemplary pharmacies in building the E3 resonance

The power of examples (e.g. pilot pharmacies and top performing pharmacies) acted as a major catalyst and managerial tactic in stimulating the pharmacies that lagged behind the E3 standards and that were in high change failure risk. By setting the best performing pharmacies and showing how high efficiency was achieved through the E3 methodology, change leaders sent out a strong signal that the said targets are proved to be achievable by showing how some pharmacies reached these goals. Such a narrative reduced the cues needed for the underperforming pharmacies as change stories were deemed as credible and counter argued the resisting employees who quoted individual and idiosyncratic situations at their pharmacies prevented them from accepting E3 standards. Such a unification process under the intense time pressure (described in 5.1) served as a resonance builder for those change recipients as they linked their idiosyncratic situations to the general idea of E3.

5.3 Constructing the new self in E3: from independent experts to devoted customer advisors; from organizers to entrepreneurs

The actualization of E3 entailed an organization identity work, as APH moved from the state-owned monopoly organization to an effective and customer-centric commercial organization. The evocative organizational image carved out by E3 (5.1) portrayed what APH is and what APH is not, as the change agents called into the question the obsolete interpretative scheme (Gioia and Chittipeddi, 1991) that economic matters are not APH's considerations. Such a new organizational identity (a business organization and a future leading pharmacy brand) demanded that pharmacists' role as knowledgeable and trustworthy experts must be extended. Pharmacists are now also customer advisors who should be engaged in sales and who are obligated to create efficient pharmacies to ensure customer satisfaction.

Such a role extension of change recipients created a clash in their self-conception. Three representations of pharmacists' self needs were posited for alteration. The establishment of SIS along with the stringent monitoring system provided the cognitive and behavioral boundaries that alienated non-compliance, triggering the pharmacists' need for *self-enhancement* and *self-efficacy* motive (Erez and Earley, 1993). This is because pharmacists were perceived as incompetent and inefficacious if their store performance was unmatched with the E3 targets, and their cognitive and affective state of the self was threatened. As mentioned in the empirical data, pharmacists are highly educated people; they take pride in their knowledge and expertise. When such a *self-inconsistency* (Erez and Earley, 1993) was observed, they engaged in making sense of the new environment as they failed to confirm their own self. The instant improvements from the store performance report and ease to work as a result of the improvements (smoother processes, higher customer satisfaction, and financial results) in return strengthened pharmacists' perception of self as they projected their enactment in the new role and reoriented to the situations that maintain their esteem and consistency of self-conception (Weick, 1995).

The identity transformation of pharmacists from independent experts to commercial savvy customer advisors constructed the constitutive mechanism enabling change recipients to eventually enact and accurately interpret the changes carried by E3.

The alignment between change recipients' answer to "who I am" and "what APH is" did not happen without dissidents. Not all change recipients were able to make sense of the identity

transitions given their long-held occupational norms. Those who failed or resisted to accept the new identity were pushed to the organization's periphery, leaving them with limited strategic voices. These sanctions posed a stark contrast to the ESOP that incentivized a broad range of managers to directly or indirectly embrace the new role as APH's imminent success was in line with their new identity, personal reputations and financial benefits/losses.

Another critical identity transformation is related to PMs. Because of the permeation of SIS (5.2.1), they transcended their role from pure organizers to entrepreneurs. For PMs, who hold the managerial responsibility for the pharmacy, the introduction of E3 meant the alteration from a pure pharmacy organizer to a business manager who assumes the responsibility of the pharmacy's overall profit & loss (P&L) and effectiveness. This role alteration and entrepreneurial drive are tightly coupled to what SIS measures, creating a mechanism wherein interpretation was activated and managerial meaning was attached as PMs started to act as entrepreneurs. In essence, the added entrepreneurial spirit expanded their worldview of the new pharmacy business and enabled the construction of meanings by providing benefits (Sonenshein and Dholakia, 2012) and strong cues for discerning acceptable beliefs, needs and acceptable reasons for action.

Engaging in the SIS reporting routine thus constituted not only PMs' imposed routines but also an enhancement of vested interest in association with E3 because of the embedded entrepreneurial meaning. As a result, SIS enabled PMs to understand and enact their capacity to construct the new reality of their pharmacies (E3) that was shared and envisioned by their seniors.

5.4 Focus on monitoring as the trigger for acting and making sense of E3 change

The previous sections explain how sensemaking conditions were created by the management's sensegiving process and how change recipients engaged in sensemaking through settlement for plausibility and identity work. This explanation is somewhat partial without incorporating the rigorous monitoring exercised by the board, including the extreme focus and extensive use of SIS, high frequency of follow up and the deployment of mystery shoppers to validate SIS and to exert "on-spot" monitoring. In fact, this highly disciplined monitoring mechanism constituted a coercive

power for reinforcement of action throughout the organization and change recipients' sensemaking by accelerating and recurring the sensemaking circle (Weick, 1995).

5.4.1 Monitoring as an identity enabler and enhancer for relating to the new AHP through E3

In contrast to not knowing who the CEO was and the blur organization image that prevailed prior to the buyout due to the limited interactions between management and their daily work, the enhanced monitoring activities by the new board and management enabled pharmacists to gradually break down the physiological distance between themselves and the top organization leaders. This brought them closer to more concrete recognition and professional pride as their work became repeatedly endorsed by important organizational leaders. A positive outcome of such closer proximity between pharmacists and change leaders is that pharmacists began to synthesize the E3 vision (5.1) and financial focus embodied in SIS (5.2) as they consistently observed timely reactions from the leaders when attempts were made to balance and reconstruct the self-conception (5.3). This made them convinced who they are becoming as they became to understand the critical link between their role change and the success of the organization. Monitoring therefore acted as an enabler for change recipients to complete the identity shift (Weick, 1995).

The increased monitoring also acted as a new identity enhancer for pharmacists as they built a stronger connection with the new APH by repeatedly relating their work to their managers by showing customer interactions and engagement in pharmacy efficiency enhancement and ultimately the financial outcomes reflected in SIS. A direct outcome of repetition is the continuous confirmation in who they were becoming and how that identity fits into the new APH's identity. Such an alignment in identity has implications for what the change recipients have to say about work and how they interact with each other, which is discussed in 5.4.2.

5.4.2 The repeated social construction of the new reality – conversations and interactions to link the actions with the change focus governed by SIS

The independence among pharmacies prior to buyout meant that interactions to talk about customer experience and economics frameworks were limited. The reason is that there existed weak needs to have social contacts with the internal and external environments. In contrast, the introduction of frequent top-down monitoring based on E3 enforced pharmacy staff to proactively position themselves in relation to their competitors in the free market movement, creating the

social loops with the external environment through more customer interactions and making the financial focus more visible in the organization, thus more social topics among the internal organizations.

As a key monitoring tool, SIS was a vital social currency. It gave the PMs a well-articulated objective for inviting actions and ongoing conversations from pharmacy employees to actualize the priorities set forth by the change agenda. SIS provided the agenda for the morning kickstart meetings and weekly sales meetings. Pharmacists came to understand the meaning of SIS as they were exposed to series of cues explicitly and implicitly created in various rituals. For example, seeing their store performance charts on the white board gave them a clear visualization of what has been done and what is on the to do list; joining the daily kickstart meetings and openly discussing about the to do list and proposals to improve the pharmacy operation made them realize their impact on the pharmacy performance, thus inducing more actions. These rituals, primarily through meetings, provided an effective platform for pharmacists to position themselves to peers and for PMs to formulate pharmacy-specific operational frames of E3.

Another effect of the continuous flow of monitoring mechanism is that change recipients were both consciously and unconsciously pushed into internal social interactions. PMs' engagements and interactions with other stores signposts the state of social comparison as their store performance became comparable, and as these managers started to talk with others about the pharmacy operations governed by SIS. Through this social process (Weick, 1995), PMs and pharmacists (via the words of PMs or other channels) gained important information about the organization reality by having observed the responses of others sharing that reality. These types of performance-driven horizontal dialogs compound the repository of meanings and contribute to the subsequent diffusion in the entire organization as well as to the sensemaking process of organization members as they gathered cues from others, practiced it and shared their experiences with their peers.

5.3.3 Proactive and passive co-production of E3 experiences through quick actions demanded by monitoring

While visions and a sense of urgency (as presented in 5.1) mobilized pharmacists to shape the new efficiency- and commercially-oriented behavior and to inculcate shared understandings of the tougher business landscape from a macro approach, it can be argued that another overarching force

that drove the change lies in the board's focus on behavioral change through strenuous monitoring and mystery shoppers, as suggested by the empirical data.

One salient *cue* that urged managers to push the required change is the prospect of becoming the best pharmacy brand in Sweden through E3 – a launch pad for turning survival to competitive advantages. The empirical part reflects the pace of change was attributable to the demand from top and the ubiquitous control, inducing pharmacists either proactively or passively engaged in enacting the new behavior repeatedly. This included the introduction of new meeting and reporting structures and mandatory participations in E3. Partially attributable to the emphasized organization-wide dissatisfaction of identified inefficiency, the non-negotiable standard on E3 had meant that the board's consistent control and demand for quick change through monitoring was indispensable to push change recipients in trying out E3. As a result, change recipients were constantly involved in the flow of new experience generation as they started to roll out the new practices promoted by the E3 principles. These new experiences provided the knowing part of "how E3 is operated at my pharmacy" and created a repertoire of identity affiliation (5.3) memories about E3 similar to Weick's (1995) *retrospect* concept. As discussed in 5.2 and 5.3, using SIS as sensemaking account, change recipients were able to link their continuous engagement in improving customer experience, pharmacy efficiency and ultimately the financial goals to the new organization interpretive scheme called out by their seniors. The bottom-up approach to construct and contribute their ideas on solving difficult situations through multiple E3 channels is another strong proof that shows how change recipients engaged themselves in the new E3 context. By adopting E3 changes through enactment and thereafter proposing for the best approach to change and be an eventual proposer of it yields the co-production of what Weick (1995) called the new environment, strongly linking pharmacists' action to cognitive resonance in E3 and thus enabling further cues extraction in what is meaningful actions under E3.

From the mandate of monitoring, a very different path of change can be seen – by imposing change directly to the routines of change recipients' daily work and immediately institutionalizing the monitoring mechanism, e.g. through meetings, change recipient's adaptability became elastic. This is because of new experience generations and the salient relation between their sensemaking account – SIS – and the new interpretive scheme E3. As will be presented in 5.3.4, change recipients' level of adaptability and sensemaking capability is positively correlated to monitoring.

5.3.4 Monitoring as an ongoing stimulator for making sense of E3

The relentless monitoring activities exercised by the change leaders created a prevailing and sustainable stimulator for pharmacists to engage in a constant flow of behavior changes prescribed in E3 as they became more exposed to management's attention. Such a monitoring mechanism removed the doubt casted by change recipients who would consider change propaganda imposed from top-down usually become passé and would eventually be forgotten by managers as time goes on. The constant follow up poised a strong denial to this. It installed the constant fluidity of change persisted by the change leaders. Such fluidity created sustaining conditions (as quoted on stamina in the change process) for change recipients to continuously engage in focusing on their sensemaking efforts around change and contribute with their own ideas on how to better change.

In essence, the vast amount of positive change interpretations and the accumulation of small changes in E3 suggest that change recipients at APH were energized by the magnitude of monitoring. Their level of adaptability and sensemaking capability, therefore, is positively correlated to such monitoring system.

5.4 Acting and creating commercial knowledge to shift the cognitive schemata

In addition to organizational identity work, the transformation from the state-run monopoly to a commercial savvy organization also required the acquisition of new commercial knowledge and new business skills. The absence of competition prior to the deregulation denoted that economic measures were not a major concern for the organization and operation decisions were not based on laissez-faire, rather on the provision of sufficient output that might go beyond the commercially optimal level (e.g. excessive inventory, lack of tidiness at the pharmacy, staffing inefficiency). This type of inefficiency, as called out by E3, is related to the old organization's bureaucracy for rigid stability and inability to define the environment, creating the knowledge gap when facing the new freed-up market. The planned organization-wide learning (train-the-trainer) and lateral learning across pharmacies in the E3 implementation reflected the acquisition of new knowledge for making sense of change. How pharmacists bridged the knowledge gap and made sense of E3 is observed through the SECI process (Nonaka & Takeuchi, 1995) and is summarized in Table 3.

Table 3: SECI and sensemaking processes during E3

SECI Processes	Type of knowledge conversion	Identity	Social	Retrospect	Enactment	Ongoing	Extracted Cues	Plausibility	Empirical evidence
Socialization	Tacit to Tacit.	✓	✓			✓	✓	✓	PMs' horizontal interaction with their peers to exchange best practices in E3, vertical supervisory from RMs.
Externalization	Tacit to Explicit	✓	✓						Train the trainer
Combination	Explicit to Explicit								E3 Handbook
Internalization	Explicit to Tacit	✓	✓	✓	✓	✓	✓	✓	Learning by doing

At the outset of E3, train-the-trainer initiated the top-down articulation of managerial knowledge and leadership skills (such as meeting structure and guide on pharmacy organizing and E3 implementation) to key managers and allowed this tacit knowledge to be transferred to these managers for E3 operationalization (explicit application). This one-time training provided the managers with the initial social platform needed to embark on the E3 journey and knowhow of the key concepts embodied in E3. This process reflected the *externalization* that enabled the transfer from tacit knowledge to explicit knowledge. In anticipation of E3 and recognizing themselves as "new managers" (new identity as cited in 5.3) during train-the-trainer, sensemaking activities by these managers were activated. However, only two sensemaking attributes, identity and socialization, were identified in this process, indicating that the externalization process is loosely tied to sensemaking.

As the empirical data suggests, the E3 concepts derived from train-the-trainer did not become PMs and pharmacists' natural instinct until rounds of trial-and-error had occurred, as they actively engaged in enacting various behavior changes, extracted and attached meanings to actions retrospectively and settled for plausible solutions as a result of the pressure to change governed by SIS and rigid monitoring (5.2 and 5.3). The transfer of E3 concepts to increased business acumen at the pharmacy level enabled the conversion from explicit knowledge to tacit knowledge and supported the *internalization* process. Moreover, this process was also tightly accompanied by the simultaneous vertical and horizontal *socialization* process as PMs obtained direct support and

supervision from RMs and best practice sharing from other PMs (formally and informally), such as sales ideas and customer interaction. This stream of practical knowledge and the ongoing sharing of it, despite without engaging PMs through their own experience cycle,[34] amassed effective and immediate solutions available and created a shortcut to quick change as new knowledge was created, expanded and utilized by organizational members. Through the repeated spiral of actions and socialization and the presence of major sensemaking properties, the *internalization* and *socialization* processes showcased PMs' and pharmacists' active engagement in sensemaking as they acquired and disseminated tacit knowledge and improved their business knowhow.

The production of the E3 Handbook marked the accumulation of collective knowledge throughout the implementation of E3 and reflects the *combination* process in the SECI model as knowledge is codified and written in a handbook, expanding the explicit knowledge at APH.

PMs and RMs' involvement in the SECI knowledge cycle supported the view that middle managers are "knowledge engineers" (Nonaka and Takeuchi, 1995; Rouleau, 2005; Balogun and Johnson, 2005) as they engaged in connecting what they and other individuals came to know in their experience of E3 and sharing such new knowhow to the rest of the organization. As discussed above and shown in Table 2, the finding suggests that not all steps of SECI knowledge conversion model plays an equal role in change recipients' sensemaking. The two critical processes – the transfer and conversion of tacit knowledge – triggered more sensemaking properties and contributed more in the activeness of sensemaking that led to better understanding of change and better capability enhancement necessary for acting on change. This notion therefore creatively shows the tighter connection between new knowledge creation and change recipients' sensemaking and clearly distinguished the relative criticality of *internalization* and *socialization* in successful change, a notion that has not been observed in existing literature.

The organization learning in commercial savviness and business skills enabled change recipients to enhance their cognitive capacity from "economic performance does not matter" to "my pharmacy's performance is important and I can have influence on it". This new cognitive capacity

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[34] i.e. the retrospect and enactment aspect of sensemaking.

helped change recipients to shift from a slack monopolistic mental frame and to reconstructing a new cognitive schema vital to making sense of changes in E3.

6 CONCLUSION

This chapter concludes the answers to the research question in section 6.1 and our speculations beyond the researach question in section 6.2.

The study conducted in this thesis was motivated by the high failure rate of organizational change and the experienced PE actors' superior effectiveness in managing change in the so called portfolio company's value creation process. The purpose of this thesis is to address the lack of research in this new phenomenon by using the highly explanatory sensemaking and sensegiving theory to elaborate on:

How do change recipients make sense of change in the value creation process of a buyout portfolio firm within the Swedish retail sector?

6.1 Addressing the research question

Our findings suggest that how change recipients at APH made sense of change in the value creation process is tightly coupled with the construction of meaning through the reciprocal process of cognitions and actions driven and accelerated by five key intertwined organizational inputs, namely:

1) The CEO's strategic use of sensegiving to create an organization-wide new interpretive scheme that paves critical sensemaking foundations;

2) The proliferation of SIS as a plausible sensemaking account for change recipients' meaning creation and diffusion;

3) Change recipients' identity work;

4) The stringent top-down monitoring as a dominant trigger and powerful accelerator in change recipients' sensemaking process;

5) Change recipients' learning in action in acquiring new commercial knowledge to shift their cognitive schemata.

These factors are summarized in the Figure 10 - a model derived from the theoretical model and the analysis.
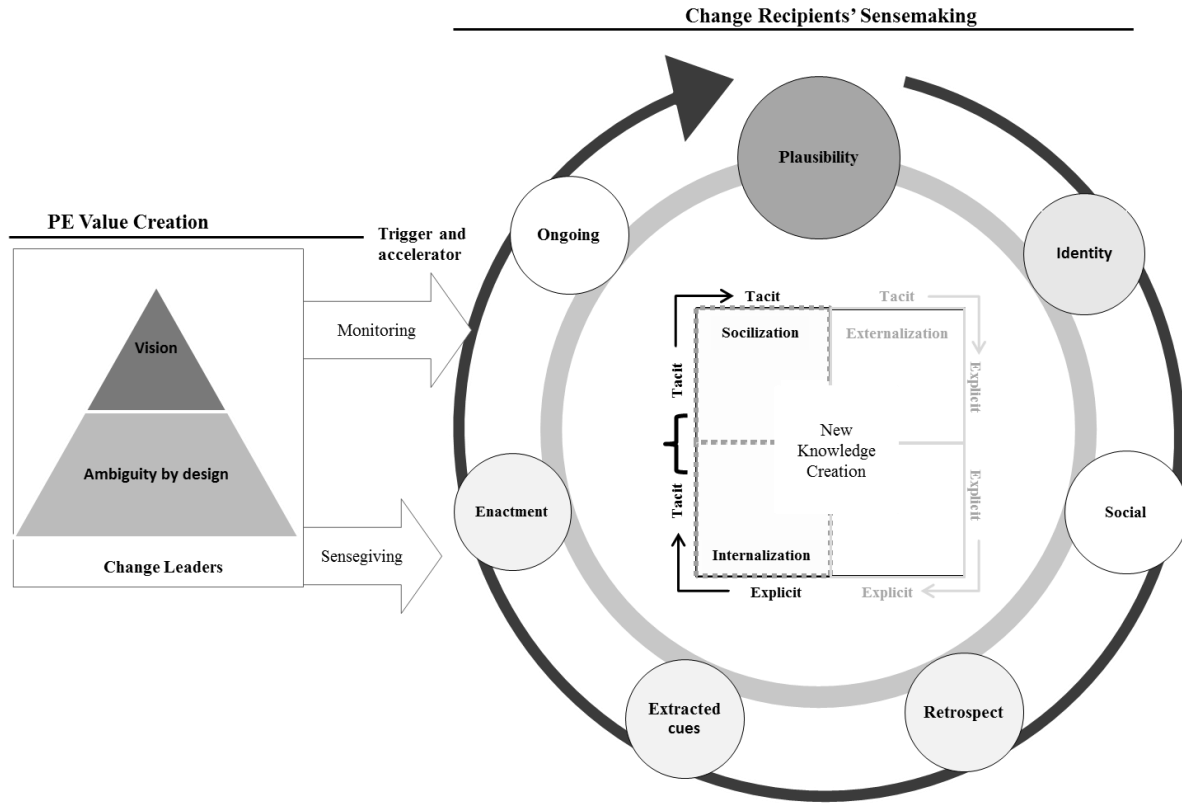
Figure 10 – How change recipients make sense of change in PE value creation process

The change recipients' meaning construction process initiates as the CEO instigates an evocative signal by architecting a captivating and well-communicated vision that breaks down the obsolete interpretive scheme and that illuminates a persuasive image of "who we are and how do we do it". Through the massive communications and the increased visibility (symbolic actions and action based visioning) of change leaders, change recipients confirm the redefined organizational reality, engage in interpreting the new vision and transfigure the top-down change into a hybrid of both top-down and participative.

As an imperative sensemaking account, the SIS designed by the board emerges as a strategic language that simplifies change recipients' comprehension of the change embodied in E3. By using Weick's plausibility theory, the study finds out that the overarching passage between change recipients and the complex change is the change recipients' settlement for plausible judgement, as shown in the ease to understand the change goals embodied in SIS. Similarly, the tactical

promotion of best examples constitutes a resonance builder as they link their idiosyncrasy to the general idea of E3.

Examining the core of change recipients' sensemaking, their identity work in the E3 process, we reveal that the construction of the new interpretive scheme involves change recipients in resolving a self-conception crisis, wherein they engaged in maintaining their esteem and address the profession inconsistency by expanding their roles in the new business-oriented organization. What is more unique in this identity change process lies in their infusion of entrepreneurial drive and invested interest in socially constructing the new efficiency and economic driven framework by ubiquitously using SIS for interpreting meanings and for spurring further actions. We argue that the PE traits, such as the ESOP incentive system and the P&L managerial meanings attached, have provided benefits and strong cues for change recipients to enact on change accentuated by the change agents.

Furthermore, change recipients consciously and unconsciously undergo the acceleration of sensemaking the circle (Weick, 1995) as they are either proactively or passively engaged in enacting onto the environment because of the stringent monitoring exercised by the leaders, despite their understanding of change is not fully enabled. As an identity enabler and enhancer, monitoring endorses change recipients' becoming of the new self by emphasizing the focus in E3. As a direct product of monitoring and the demand for quick actions by the board, rituals, primarily through meetings, mobilize change recipients in vertical and horizontal social conversations and interactions as well as in generation of new experiences, bridging their sensemaking account-SIS-and the new interpretive scheme-E3. Change recipients adapt themselves and yield positive post-action interpretations of E3 in a fluid change flow sustained by monitoring.

Finally, as an integrated process in sensemaking, change recipients capitalize on *internalization* and *socialization* in the SECI process (Nonaka and Takeuchi, 1995) to transfer, convert and to diffuse the commercial knowhow and business skills. Their enhanced cognitive capacity from learning by doing facilitates the shift of cognitive schemata, contributing to their successful sensemaking in E3.

6.2 Going beyond the research question - The code to successful change

As elaborated in chapter one, change is complex yet imperative. In an effort to debunk the myth behind successful change, Beer and Nohria (2002) gathered the world's most known scholars and practical gurus and held a change conference to crack the code of change. The collective mind did not come up with the exact answer on how to successfully work with change management. More than a decade later, the code of change is still not cracked. While realizing it as mission impossible (and it is not our ambition) to crack the code of change in this thesis, by studying how the micro organizational social processes in the PE context and how change recipients engage in thinking and acting to construct meanings of change in a revolutionary pace, our findings suggest several implications for successful change.

Through the lens of sensemaking, we found that there is a thin boundary between cognition and behavior in PE's accelerated change context given its short time horizon and unique governance structure. This implies that the time needed for behavioral change might have been over-estimated by change scholars or general managers. When pre-conditions are right, such as expressive construction of a vision and high goal clarity accompanied by the coercive control and monitoring mechanism to blur the old self and paint a new desired image, we speculate that behavioral change can be achieved faster given humans' ability in sensemaking. However, this sensemaking process would need to be repetitive, in other words, change needs to be repeated so that change recipients can be exposed to the flow of change and make sense from their elapsed experience. This proves that the traditional view of cognition lies before behavior overlooks the dynamics in change.

Deriving from PE's fusion of entrepreneurship drive and ownership in making change happen, we also suggest that entrepreneurship and ownership are another two critical factors in successful change. This sheds light on the significance of alignment and incentive, which we hope future research will explore.

7 DISCUSSION

The last chapter wraps up the contributions of the thesis (section 7.1), limitations to these contributions (section 7.2) and suggests topics for future research (section 7.3).

7.1. Theoretical contributions

This study contributes to the existing literature gap on how change recipients make sense of change in the PE value creation process through the lens of sensemaking. By illustrating how change recipients became to understand change and developed their acceptance in the buyout value creation process is strongly related to the PE's unique attributes, such as PE owners' rigid focus and monitoring as well as managers' entrepreneurial drive, we have integrated PE, sensemaking and change management literature, and showed that there is a tight connection between these three streams of literature and that the overlaps have important implications for successful change management. Settling on a plausible judgement, such as a comprehensible measurement mechanism, change recipients can make large amount of positive post-action interpretations of change, be mobilized by change leaders' expressive vision, and socially construct a new organizational reality through routines and meetings. Their adaptability of change and sensemaking capability is positively related to change leaders' monitoring in the becoming trajectory of embracing a new identity. This finding therefore addresses the main theoretical gap specified in the thesis and contributes to a more processual and humanistic understanding of change implementation in the PE context.

In addition to the main contribution, there are four other specific contributions elaborated below.

To begin with, we find that there is an effective link between the constant monitoring system exercised by the change leaders and the motion in change recipients' sensemaking circle and their level of adaptability. In fact, monitoring generates powerful change pressure to accelerate the sensemaking circle as described in Weick's sensemaking properties and has a positive correlation with change recipients' adaptability in change. Such dynamics have not been captured by previous

research and complements Sonenshein and Dholakia's (2012) notion on change recipients' adaptability.

Further to adding monitoring as a critical catalyst for sensemaking, our finding also expands Gioia and Chittipeddi's (1991) sensegiving concept by demonstrating that change leaders' instrumental role in change not only resides in acting as the architect, instigator and facilitator of strategic change, but also entails strenuous monitoring to guide the change recipients to the new organizational reality through repeatedly reinforcing and following up a clear and focused measurement system.

By showing the strong correlation between the transfer and conversion of tacit knowledge and change recipients' sensemaking and change adoption, this study identifies the criticality of *internalization* and *socialization* as two key processes in the production and dissemination of new knowledge. The relative importance of these two knowledge creation processes has not previously been identified in sensemaking literature. The discovery also expands the SECI model (Nonaka and Takeuchi, 1995) on how it affects change recipients' sensemaking.

Finally, we have added to the change management theory on how change is conducted empirically, reducing the empirical gap that many scholars have called (Kahn,1974; Pettigrew, 1997; Pettigew et al., 2001; Burke 2011). In addition, we have presented some speculative frames for successfully managing change. Change is not a linear process. By introducing the human factors to change, we have shown the recursive relationship between cognition and behavior as well as the power of action that enables change (in the PE value creation process). This sheds light on the significance of vision, focus, clarity of change goals, ownership and monitoring, opening up promising areas for future research.

7.1.1 Practical contributions

Managing change has become the ultimate managerial responsibility as firms adapt themselves to the more and more complex markets (Kanter, Stein, and Jick, 1992; Beer and Nohria, 2000). By studying the social and cognitive aspects of an organizational change that took place at a revolutionary pace, we have brought to the fore how humans act, think and construct meanings essential to the success of a change. We have also shown the importance of a focused and consistent monitoring system in visualizing the right behavior and quick actions as well as

activating change recipients' learning and sensemaking process. A direct empirical implication that can be derived from our study is that a fast and desirable change outcome can be obtained if an organization has a clear purpose, clarity of who they are and where they are going, attention to ongoing enactment and extract cues to make sense of their goals. One can also infer that leaders' ability in sensegiving is instrumental for a change to be successful.

7.2 Limitations

This research is exploratory in its nature. Two limitations of this study, excluding methodological limitations, are discussed below.

7.2.1 Limitation due to the focus on sensemaking

In order to obtain an in-depth understanding of how change recipients make sense of change in the PE context, the main theoretical body drawn in this study has been sensemaking. This creates limitations in terms of revealing more understandings through other theoretical lens. One unheeded area is emotions. As we realized in the accounts of the interviewees describing the change process, tough times had occurred and there were emotional reactions. These emotional accounts could have affected the change process but were hard to capture given our theoretical focus, limiting the holistic view. However, emotions are likely to be enhanced (positively or negatively) in retrospective (Thomas and Deiner, 1990; Kahneman et al., 2009), thereby making this theory less applicable when trying to understand this phenomenon in hindsight.

7.2.2 Addressing the generalizability

Given the unique attributes in the cased study - MBI of a previously state-owned business, we refrain from stating that similar findings can be replicated. We also speculate that the PE value creation process in sectors such as manufacturing may yield different results. However, the findings are somehow generalizable in the sense that the case embodies key PE attributes and aspects of the processes taking place (Gobo, 2009) that are similar to the general value creation process in PE context.

7.3 Future research

The field of research in this study - private equity and change management - is nascent. This study serves as a point of departure for future researchers to explore different methodological design and deploy different theoretical lenses to broaden the understanding. A longitudinal study could provide real-time observations and accounts, thereby capturing other important mechanisms critical for change, for example, alignment, incentives, ownership and emotions. As discussed in our limitation, this may enhance of understanding other aspects of change in the PE value creation process. Another interesting avenue would be to employ other theoretical lenses, for instance, power and politics, which could indicate whether other construct would give a different picture of how the PE value creation takes place, or whether our findings can be replicated or not.

Our study has shown the distinctive sensemaking path of change recipients in the PE value creation process and sheds light on the impacts of certain unique PE attributes in change implementation. This provides theoretical support for future studies focusing on comparing the effectiveness of different change actors, such as PE and public firms, in strategic change and its implementation.

Finally, beyond the context of PE, we argue that further research is needed to capture the complex process of organizational change. More robust theories and a common understanding of change perhaps can help practitioners to improve the success rate of organizational change.

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9 APPENDIX

Appendix 1: Interview list for data collection

Firm	Position	Interview Duration	Date	Source of information
APH	Top Management	60 minutes	March 9	Face-to-face
Altor	Board Member	90 minutes	March 19	Face-to-face
APH	Top Management	70 minutes	March 20	Face-to-face
APH	Project Management Team	60 minutes	March 23	Face-to-face
APH	RM	60 minutes	March 23	Face-to-face
Bearing Point	Senior Consultant	60 minutes	March 27	Face-to-face
APH	PM	55 minutes	April 8	Face-to-face
APH	PM	35 minutes	April 14	Face-to-face
APH	Top Management	60 minutes	April 14	Face-to-face
Altor	Board Member	90 minutes	April 14	Face-to-face
APH	Project Management Team	65 minutes	April 15	Face-to-face
Altor	Board Member	90 minutes	April 16	Face-to-face
APH	RM	55 minutes	April 17	Face-to-face
APH	PM	40 minutes	April 20	Phone
APH	RM	35 minutes	April 20	Face-to-face
APH	PM	40 minutes	April 22	Face-to-face
APH	RM	60 minutes	April 22	Face-to-face
Altor	Board Member	70 minutes	April 23	Face-to-face
APH	PM	40 minutes	May 6	Phone

Appendix 2: Expert interviews

Firm	Position	Area of expertise	Interview Duration	Date	Source of information
Altor	Investment Manager	Expertise in PE value creation and change management (Internal)	90 minutes	February 24	Face-to-face
APH	Top Management	Expertise in PE value creation and change management (Internal)	N/A	Early March	E-mail/Phone
PE	Senior Investment Manager	Expertise in PE value creation and change management (External)	80 minutes	March 10	Face-to-face
Consultancy	Founding Partner	Expertise in PE value creation and change management (External)	50 minutes	April 10	Face-to-face
Public	CEO	Expertise in change management at both public and PE firms (External)	55 minutes	April 10	Face-to-face
PE	Senior Investment Manager	Expertise in PE value creation and change management (External)	70 minutes	April 17	Face-to-face
Public	SVP	Change management expert (External)	50 minutes	April 29	Face-to-face
Consultancy	Senior consultant	Change management expert (External)	40 minutes	May 5	Phone

Appendix 3: Interview guide

The structure for each interview was to first start with a presentation about the purpose of our thesis, the subject we were investigating, followed by some practical questions. Then generic questions were asked that could prompt additional questions depending on what the interviewee remembered and/or whether answers were not clear to us. Emergent (including role specific) questions were asked based on what had been said in the previous interviews and/or were perceived as useful in better understanding the change process. As the emergent theory approach was used, not all of these specific questions were asked to all respondents. Moreover, as the generic questions of the process many times covered answers to other questions, some of these questions were not asked explicitly in all interviews.

Before questions were asked, we asked for consent to use their responses and asked whether it would be okay to record the interview. Moreover, we informed them that their responses would be treated anonymously.

Generic questions

Background information

- Can you please present yourself?
- What is your current role?
- How long have you been working at [company] and what did you do before?

Change process

- What was your role during the change process?
- Can you please guide us through the change process from your perspective, from the beginning to the end?
  - Prompt questions if:
    - Ambiguousness in answer
    - Elaborate more on deviant information not relating to previous interviewees' answers, or
    - Important parts of the process were missed in the account
- Was the change necessary?
- Can you elaborate on the biggest challenges in the change process?
- Do you think this was a successful project and why/why not?
- If "Yes" on previous: Which were the most important success factors?
- How could the change process have been done better?

Emergent questions that were derived from responses

- What is your overall perception of the monitoring tool used?
  - Can you describe how it affected you and others in the change process?
  - Positive or negative?
  - How is it used today?
- Can you elaborate on the engagement from the top-management?
  - How did you notice that they were engaged / not engaged?
- How was the change communicated throughout the process?
  - What helped you to understand what the change was about?
- How was the intended new way of working achieved?
  - How did people transform to this new way of working?
  - Why did they do it?
  - Was it similar for everyone?

Specific questions – Board

Interaction with Top Management

- How was the top-management team selected from the beginning?
- Can you describe the change process and how you interacted with top-management?
- Did you encounter any disagreements during the process?
    o If yes: What and why?
- How did you communicate your goals to top-management?
- How did you motivate them to run the change?
    o Were they motivated?
- How did you help them throughout the change process?
    o What role did you play?

Interaction with rest of the organization

- How did you interact with the rest of the organization throughout the change?
- How much did you work with actual change implementation?

Change process

- Did you get any help to run the change process?
- Takeaways: success factors and areas that could have been done differently?

Specific questions – Top Management

Interaction with lower-level managers

- How did you communicate to stores in the change process?
- What was their response?
    o If negative: How did you make them accept it
- Did they understand what you communicated?
- What did you do to motivate them?

Interaction middle-management

- How did your interaction with middle-management look like throughout the process?
- How did you make them understand the change intention?
- What was their response?
- What did you do to motivate them?
- How did you make them ready to lead the change?

Interaction Board

- Can you describe your interaction with the board throughout the change process?
- Did you agree on goals?
    o If not: What problems did you encounter?
- How did they help you during the change process?
- Comparing to a public firm, what was different in working with a PE portfolio company?

Change program

- What did you think about the change program at first?
- Did you have any contact with Altor?
- What was your perception of what they (Altor) did in the change process?
- Did you understand what you were supposed to do?
- What helped you the most in the change process?
- What more would you have needed?
- Your takeaways?

Specific questions – Middle-level Management

Interaction with lower-level managers

- How did you get Lower-level managers onboard?
- What did you do to help them in the change process?
- What worked well and why do you think?
- What worked less well and why?
- What did you do to motivate them?

Lateral interaction

- Did you interact with other middle-level managers during the change?
- Did you get any help from other middle-level managers during the process?

Interaction top-management

- How did top-management communicate the change to you?
- How did you interact with top-management during the change?
- Did you understand what was desired from the top?
- How did you perceive their engagement to the change?
    - If positive or negative: How was this visualized?

Change program

- What did you think about the change program at first?
- Did you have any contact with Altor?
- What was your perception of what they (Altor) did in the change process?
- Did you understand what you were supposed to do?
- What helped you the most in the change process?
- What more would you have needed?
- What did you learn from this change?

Specific questions – Lower-level Management

Interaction with employees

- How did you get employees to work according to the change?
- What did you do to help them in the change process?
- What worked well and why do you think so?
- What worked less well and why?
- What did you do to motivate them?

Lateral interaction

- Did you interact with other lower-level managers during the change?
- Did you get any help from other lower-level managers during the process?
- Did you help other lower-level managers during the process?
- How did you interact with others stores in general during the change process?

Interaction middle-management

- How did middle-management communicate the change to you?
- How did you interact with middle-management during the change?
- Did you understand what was desired from them?

Interaction top-management

- How did top-management communicate the change to you?
- How did you interact with top-management?
- Did you understand what they wanted?

Change program

- What did you think about the change program at first?
- Did you understand what you were supposed to do?
- What helped you the most in the change process?
- What more would you have needed?
- What are your takeaways?

Appendix 4: Key value creation levers

Key Levers	Details
Improve over the counter & Traded good gross margin	• Sourcing negotiation • Supply chain vertical integration • Product mix management • Introduction of Private label
Higher profit & growth through an increased proportion of traded goods	• Concept development • Assortment expansion • Shelf management • Culture change
Increase personnel efficiency	• Reduce service level (where appropriate) • Mix shift • SKU reduction • Scheduling/pooling of resources cross pharmacies
New store roll-out	• Opening of new pharmacies • E-commerce

Appendix 5: A list of change initiatives embodied in E3

#	Area	Purpose	Problems	Change Initiatives
1	Organization	Create an organization that more effectively supports the pharmacy operation	• Lack of clarity about roles and responsibilities for Regional Managers • More than ¼ of the pharmacy managers are judged to have serious developmental needs and express need for leadership development • Unclear reporting channels, thus difficulties in making priorities.	• Clarification of roles: - Increased focus on sales and earnings - Increased support from central functions
2	Governance & leadership	Create conditions for efficient pharmacy operation characterized by business acumen and efficiency	• Key figures & reports not applicable on operational level • Control & monitoring is poor • Interface between pharmacy and support office not clear • Lack of leadership skills - Understanding of the results and what drives this is limited - Roles and responsibilities are not implemented at the employee level - Meetings often have the wrong focus, little is devoted to profit	• Introduction of key KPI's and standardized reporting tools, system implementation score (SIS) • Initiation of daily kickstart meeting at Store Level • Initiation of weekly store sales meeting • Key leadership and business skill training programs, e.g. train the trainer, handbook. • Detailed evaluation of all managers.
3	Personnel	Ensuring staffing to match actual needs according to customer patterns - number of persons and personal mix	• Goods handling represents almost 1/4 of the total time and more than half of daily life for pharmacist, refraining customer interaction. • The workforce is not actually needed based on customer flow, and low customer flow dominates non-value adding activities.	• Project Member (s) from E3 visiting current pharmacy to support pharmacy manager with scheduling to better follow customer designs
4	Process	Streamline processes and reallocating time from non-value adding to value creation	• Procedures and ownership for goods handling lacking - this drives time, creates uncertainty and leads to very limited customer focus • Non-standardized process with local differences - which is reflected in the wide distribution of time spent on the individual process steps.	• Incorporating effective work processes: - More time for customer interaction - Standardize procedures
5	Orderliness	Eliminate unnecessary disturbance torque in everyday life and create a structure allowing efficiency	• The majority of the pharmacies are messy; uninspiring pharmacies contributes to inefficiency, a deteriorating work environment and negatively affect customer experience	• "House cleaning" • Store order maintenance
6	Sales	Bring about a behavioral change that drives sales	• The staff rarely take the initiative to additional sales • Store managers express frustration over ability to create excess sales.	• Sales training • Managing through store managers

Appendix 6: Organization chart

Organizational level

Three employees from Altor Equity Partners are part of the Board of Directors

- Altor Equity Partners
- Board of Directors
- CEO

CEO

Top Management
- Other positions in support functions
- Head of sales

Referred to as middle managers
- Other positions in support functions
- Other positions in support functions
- Regional manager 1
- Regional manager X
- Pharmacy manager 1
- Pharmacy manager 2
- Pharmacy manager x

Pharmacists
- Store Employees