

Original Paper

Organizational Models and Dynamic Capabilities: From
Bureaucratic Structures to a Freedom and Emotional
Management for a Sustainable, Participative and Innovative
Bank. The Case of Italian Banks

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Abstract

The thesis that we support in this introductory work, and which we propose for discussion and technical-scientific debate, is that even the online bank, and even better the digital bank, towards which we are moving with ever-increasing acceleration, cannot escape the trends, now widespread in businesses, towards flexible and decentralized models, which recognize the principle of self-organization and empowerment, and therefore towards organizational forms that involve and participate managers and employees. Organizational models that place human capital and the ethical-motivational wellbeing of people (workers and managers) at the centre and that, if involved in decision-making processes, are capable not only of increasing dynamic capabilities but also of innovating them (renewing) by leveraging, above all, the enhancement of middle management. In this work we argue that the characteristics of organizational models promote the dynamic capabilities in a circular approach integrating vertical and horizontal competences in a flattening organization. Freedom and Emotional management shape organizations capable of adapting and regenerating even in rapidly changing environments. Reinforcing this position is the circumstance that Italian banks find themselves having to redesign their business and managerial models not only to make them economically and financially sustainable to counter the current profitability crisis, but also to make them consistent with social (and environmental) sustainability criteria by adapting to the new European regulation. A transformation that push towards the increasing convergence of eco-efficiency and eco-effectiveness with more participating and creative human resources for the resilience.

Keywords

Banks, organizational models, dynamic capabilities, human resources

1. Introduction

In recent years, the economic crisis has induced Italian banks to reduce costs to counter the drop in profitability; the technological revolution has pushed them towards lean and flat structures but they have maintained organizational models that are often highly centralized and hierarchical-bureaucratic, remaining within the perimeter of Fordism organizations (Baravelli & Pilotti, 2021).

In this paper, we question the resistance of banks, and especially the largest Italian banking groups, to adopt organizational and managerial models oriented towards inclusive and participatory logics. Indeed, we believe that such models are not only useful but also necessary for a banking sector that operates in a rapidly changing socio-economic context and therefore needs to develop dynamic capabilities to innovate its business models. This issue involves European banks more generally, and the issues developed in this paper can be expanded upon with qualitative and quantitative tests.

In general, banking management believes that technological innovation is a priority for the economic sustainability of banking models, but underestimates the motivation and valorization of human capital. We believe that the quality of human capital is instead an increasingly decisive factor in this transformative phase and that it is necessary to rethink the relationship between people, organization and technology, redesigning the relationships between team, strategy and organization by introducing participative and agile models in decision-making processes. The rethinking of organizational models is necessary above all to promote in banks the renewal of dynamic capabilities (Teece et al., 1997) that are necessary to deal with the environmental change that is becoming increasingly rapid even in the banking sector and that cannot be tackled with a merely cost efficiency approach. In fact, it has been noted that bank aggregations have not created superior competitive advantages in large emerging banking groups (Baravelli & Pesic, 2021) contrary to the theory of regenerating dynamic capabilities through external interventions (Ambrosini et al., 2009).

Process digitization and organizational simplifications have intensified in the largest banking and financial groups following the Covid-19 pandemic crisis in the years 2020-21, but with superior integrationist coupling effects between automation and hierarchy. Thus signalling that top management shows it attaches little importance to the personnel impacts of organizational restructuring. Bank employees are undergoing change with modifications of the relational fabric and semantic capital in the sense proposed by Floridi (2019). We would therefore be in the presence of a substantial contradiction with respect to the need to enhance human capital in view of the objectives of innovation and strategic and business model renewal, which constitute an even greater challenge for Italian banks than that of efficiency. Therefore, there is a danger that these mainly efficiency-oriented changes (technological-procedural) will produce a destruction of basic resources that should instead be increased and modified in order to increase medium- to long-term adaptive capabilities.

In recent years we are in fact witnessing very disruptive organizational measures, among them: strong cost and employees cuts and downsizing of middle management, strong centralization of decisions, reduction of delegations and more invasive controls, more proceduralized work along functionally distinct and more fragmented linear sequences. Instead of an evolution towards involving and participative organizational models, one has to take note - paradoxically - of a return to a past time when the typical model of mechanical bureaucracy prevailed (Mintzberg, 1983), the bank was not yet computerized, and everything passed through a network of predetermined routines with little (or no) margin of autonomy for people. This involution is creating in the banks a demotivating organizational climate, people disengagement, middle management emptying, with widespread stress injection precisely at a time when greater internal cohesion is needed to renew and relaunch new business models.

The thesis we support in this introductory work, and which we propose as a topic for discussion in the technical-scientific debate, is that even the online bank, and even better the digital bank, towards which we are moving with ever-increasing acceleration, cannot escape the trends, now widespread in companies, towards flexible, decentralized models, which recognize the principle of self-organization and empowerment, hence towards organizational forms involving and participating people (Laloux, 2014). These employees-involving models are capable not only of increasing dynamic capabilities but also of innovating (*renewing*) them by leveraging above all middle management (Floyd & Wooldridge, 2003), which, although downsized in lean models, should not be marginalized by reducing its tasks to operational-procedural ones (Baravelli & Pesic, 2021).

What reinforces our position is the circumstance that Italian banks find themselves having to redesign their business and managerial models not only to make them economically and financially sustainable and counter the current profitability crisis, but also to make them consistent with social sustainability criteria by adapting to the new European regulations towards the growing convergence of eco-efficiency and eco-effectiveness with more participating and creative human resources for a resilience trajectories. In fact, the regulation on ESG (Environmental, Social, Governance) requirements urges banks and banking groups to operate with respect for the environment, social factors and the principles of proper corporate governance (EBA, 2019). From this point of view, one should therefore expect both changes in management policies concerning the provision of credit and relations with the external environment and changes in personnel policies and management models in order to enhance human capital by creating a cohesive and participative corporate climate by exploiting the maximum potential to adapt to external and internal changes.

Our thesis is that the current hierarchical arrangements are being disempowered and challenged by an evolutionary context that is not a mere technological transition but a true socio-economic paradigm shift that overlaps and accompanies the technological one but is not absorbed by it. We therefore ask ourselves about the evolutionary prospects of organizational and banking business models towards adherence to the organizational and managerial principles that belong to the thought movements of

Freedom Management (Carney & Getz, 2009; Solari, 2017) and *Emotional Management* (Goleman et al., 2002; Pilotti, 2019).

While Freedom Management is a movement of thought that sees in the reduction of the role of hierarchy, decentralization and self-organization the future of business models, Emotional Management advocates the importance of management styles that look to the development of people's emotional and collaborative intelligence. The literature dealing with these organizational paradigms highlights the positive impact on the organizational climate, people motivation, and increased creative and innovative potential in contrast to the demotivating context that depletes the resources of hierarchical-bureaucratic models and inhibits external and internal learning, which should instead be enhanced and valorized.

In this contribution we extend the analysis of the advantages of these innovative models by discussing how the shift from traditional hierarchical models to models that are lean and flat or decentralized and based on self-organization and relational managerial styles, in addition to the motivational and internal cohesion effects, allows for the development of conditions of organizational flexibility, continuous learning processes and the development of dynamic capabilities (Dosi, Nelson, & Winter, 2000) spread within the organization among the employees and not only among the management, creating an environment capable of continuous adaptation to environmental evolution but also of responding to rapid and unpredictable external changes as a transformation of ordinary capabilities (Note 1).

From this point of view, this paper focuses on the relationships between the nature of the organizational model and dynamic capabilities and on the resource-based view (RBV) showing how the nature of the *Free-Emo* (FE) model - resulting from the combined and integrated application of the aforementioned paradigms of Freedom and Emotional Management - allows resources to be valuable, rare, inimitable and non-substitutable (VRIN attributes) such that they sustain competitive advantage by implementing renewed value creation strategies (Barney, 1991; Wernerfelt, 1984; Helfat et al., 2007) even when the market becomes very dynamic (Teece et al., 1997). The dynamic capability theory has come under criticism, not only because it would be tautological, but mainly because while it appears plausible when the market is moderately dynamic, it would not be plausible when dynamism is very high (Eisenhardt & Martin, 2000). Our thesis is that the characteristics of the organizational model create dynamic capabilities and determine whether these are able to sustain competitive advantage even in rapidly changing environments.

The case of Italian banks presents elements of context and scenario representative of the aforementioned issue. Within the changes induced by technological evolution and restructuring as consequences of the economic crisis, interesting examples of advanced experimentation of these organizational principles are in fact being observed in some banking realities with the simplification of structures, reduction of hierarchy, decentralization and revision of decision-making processes on a participative and shared basis. Above all, by adopting work organization models that promote people's autonomy, both to meet the needs of motivation and organizational effectiveness, and to assess the possible effects on the development of dynamic capabilities (Baravelli, Pesic, & Pilotti, 2022).

2. Participation and Emotional Intelligence: Why do Banks need Them?

At the heart of the following reflections, the question we are asking is how banking managerial culture is changing and whether banks are actually interested in new managerial paradigms that propose less hierarchical, more participative and decentralized models. We believe that they should be for several reasons. In the meantime, it should be noted that the pandemic crisis has in fact led to some organizational thawing in those banks whose top management has granted delegations and autonomy to improvised task forces in order to prepare new operational solutions in an emergency phase; this has shown that there is a broad potential not only for collaboration but also for creativity as an expression of a shared emotional intelligence.

But the pandemic has also forced banks to expand remote working for health reasons. Teleworking in perspective can be translated into real smart working solutions, thus forming a link between a traditional banking model and a new model based on self-organization. It is necessary, however, that bank management interprets smart working not as a way to further reduce costs but as a paradigm of a true organizational and managerial change to innovate business models and at the same time strengthen corporate cohesion by avoiding situations of isolation and fragmentation. It is therefore a matter of acting on the corporate culture and management style by creating an organizational climate of participation and sharing strategies by leveraging the emotional involvement of people.

A management style that is attentive to people's psychological well-being plays an important positive role. It stimulates passions and striving for improvement, promotes involvement and learning as intrinsic motivational factors. By allowing emotions to emerge, it is possible to distinguish positive ones (e.g. satisfaction, happiness) from negative ones (e.g. anger, disgust, rejection) so that they can be governed accordingly. Thus it is possible to channel them towards a conscious choice of moral sentiments supporting to associated life and organizational collaboration for the sharing of common goals (pride of belonging to a team or community as to a family). Well-being of people also means well-being of organizations and thus of the surrounding environment and community as convergence towards common goods (Pilotti, 2019).

These principles should, in our view, push bank managements towards proximity welfare policies also for the dynamic management of conflict, individual, collective and trade union. Certainly in ethical finance all this may appear much clearer being the prerequisite of such an institutional model. More difficult is to find in the traditional banking culture not only an awareness of the role of emotional and collaborative intelligence as a corporate governance tool, but also the practical acceptance of Emotional Management principles.

However, we are convinced that in order to promote innovation and the evolution of business models, even banks cannot disregard the emotional state and psychological and organizational well-being of their employees. For example, in these times of crisis, widespread fears of being fired and the resulting depressive states have a huge impact on employee performance and the value created. Banks should better understand and take into account the impacts of these emotional states and their consequences;

not recognizing them, perhaps trying to remove or repress them, can in fact produce far more disastrous effects.

It follows that not allowing emotions to emerge and not recognizing them, and therefore not being able to analyze them, also means not acting and not intervening when they reduce performance, especially innovative and creative performance, reducing reputational capital and its potential. It is therefore an issue that should not be underestimated, because in the end it is a matter of inclusive rationality and not exclusive rationality as has tended to be done up to now by underestimating the hidden conflict factors of demotivation, stress and dissatisfaction, which cannot always be compensated for by remuneration logics and thus by extrinsic motivations (Easterlin, 2004).

Put in slang form, it would be a bit like ‘sweeping the dust under the carpet’; but it leaks out and spreads throughout the organization, generating hidden costs that are complex and difficult to manage. Out of metaphor, and as is well known, people in a non-positive emotional state can make mistakes that are not only involuntary (distraction or bias) but also voluntary (idiosyncrasies). As in the case of granting loans: rather than misjudge the risk, the officer, who feels the burden of control, will tend not to grant the loan. But in this way the bank loses immediate business opportunities and long-term reputational value with the economy as a whole suffering.

In essence, we are faced with an obvious paradox. On the one hand, managerial models of centralized decision-making prevent the development of the emotional and collaborative intelligence of people by reducing their relational and connective potential, while on the other hand, an overly strict control of performance and productivity depletes the capabilities for innovation and creativity, turning employees into (more or less) replaceable robots. We think that this is certainly not the path to innovation in the banking organization.

2.1 Flattening without Decentralization

Recent surveys (Baravelli & Pesic, 2021) have found that Italian banks and banking groups have streamlined and flattened the organizational pyramid, but with the prevailing objective of reducing costs rather than introducing new organizational and managerial models. In fact, the hierarchical-bureaucratic nature has been substantially confirmed, and in fact the greater centralization has accentuated its limits. As for the principles of Emotional Management, in the financial world psychological and emotional aspects have so far found little relevance in organizational design and human resources management of the bank, whereas they have been taken up by behavioral economics and finance (Mottetlini & Guala, 2015); which seems contradictory by applying them to customer behavior but not to bank employees.

There is probably a fear that change - and this is an entirely cultural problem - will weaken performance instead of improving it. There is therefore a preference for homeostatic stability over movement: an option that does not necessarily work even in conditions of substantial environmental immobility. Organizations should act by possibly anticipating change and not by chasing it, because it may prove to be too late to react when necessary.

On the other hand, it cannot be said that the benefits of ‘emotional, intelligent and creative organizations’ (Pilotti, 2019) are not clearly perceptible. They lie in the increased identification of people with the organization, in the importance of being part of a team, of being a human community with shared aims, a group fundamentally of equals though with tasks interconnected by a common mission and the enterprise itself as a “common good”.

This is of great importance because it leads people to give their best, with spin-off effects on productivity and creativity, precisely as a result of the mobilization of their emotional and collaborative intelligence. In fact, the increased freedom leads them to increase productivity and creativity as well as to collaborate on shared goals and objectives. By moving from the “whip” to *coaching*, people are incentivized to transfer information and share it; this also means identifying errors and problems - from minor and frictional to strategic and structural - and also finding better solutions through self-organization for solutions perceived as shared.

The granting of greater freedoms is facilitated in non-major banks where internal relations can take place with less formalization of procedures. In large banking groups, bureaucratization is more frequent because it allows top management to exercise power in a formalized top-down manner and with more defined functional competencies. Whereas in smaller banks there is a greater incentive to be more efficient with the best coupling of formality and informal relational-decision-making with more hybrid and fluid competencies, and it is easier in this way to become a team and put collaborative intelligence at the service of the organization. It is probably necessary to find points of intersection and balance between the advantages of these two organizational and dimensional-functional models.

If Freedom Management can be applied especially in large companies with decentralization and delegation, it is necessary for top management to accept the release of control power, considering that this is compensated by better efficiency-efficacy and productivity-creativity structures resulting from greater motivation and involvement. It is therefore necessary for top management to have confidence in the change and greater cultural courage to manage mission and vision in a shared manner.

2.2 *Unlocking Individual and Organizational Potential and Reviewing Current Management Models*

Bureaucratic deconstruction is therefore the road that banks should take. To this end, a major bridge must first be built to facilitate the transition from a control organization to a shared project organization. The direction to take is that of organizational models based on shared objectives for inclusive and cohesive projects for the governance of change (Note 2). This means empowering people and delegating responsibility for common project goals. It also means producing inclusive cohesion by adopting patterns of broad participation, multifunctionality and multi-skilling towards the enhancement of dimensional capabilities. Consequently, developing the issues of professionalization, remuneration and career no longer commensurate with a task career but with a life career, involving and motivating to collaboration, reducing conflict factors and converging in the goal system.

This is, moreover, in line with the evolution of commercial banking, prevalent in the Italian banking sector, which in perspective is more focused on specialized credit and financial services than traditional

lending in an economic scenario that requires a greater presence of finance for development and innovation. The result is a greater criticality of highly qualified professional figures and decentralized organizational models that go well with the logic of smart working widely used by Italian banks during the pandemic crisis.

In this perspective, there is a need for organizational policies that promote flexible models such as “islands”, which have already been introduced in the past, especially by broadly diversified banking groups, and are now being reinforced in a more eco-systemic key by combining divisional-type structures with semi-autonomous units. In effect, each team leader must have its own resources, operational structure and distribution network managed by objectives.

Self-organization can have wide application in such contexts, enhancing human capital while meeting the new socio-organizational needs that banks, as mentioned, are also facing. People today no longer simply ask for a salary, but to be able to live a life worth living, converging between working and non-working configurations. This means putting back at the center of the banking enterprise the person who normally has a family, children, a daily life, a story behind him and for this reason must be able to have a job that is satisfying, welcoming and motivating where he feels his intelligence mobilized and solicited at the service of a shared sense making (Rebora, 2017; Pilotti, 2019).

This change also seems desirable to counter top-down banking models that are in contradiction with the principles of corporate democracy, which are even more at risk in light of the growing concentration of the banking sector not only in Italy but also in Europe. Strategies, business models and resource allocation are in fact now decided at the top of a few large banking groups by an increasingly small number of people.

In fact, the issue of managerial and organizational models assumes great relevance if we ask ourselves how a socially responsible bank should function and what role bank staff should play in the decision-making processes of ESG corporate policies in view of the control and guarantee functions they can perform, especially in contrast to a top management that is not very sensitive to applying these criteria and to extended forms of governance.

This is not the place for a discussion of the contrast between participatory democracy, linked to decentralization granted at the discretion of top management, and representative democracy dependent on the regulatory framework on governance models (Mintzberg 1983), but there is no doubt that the issue of governance has direct implications with the evolution of banking models in a context of social sustainability and with European legislation on ESG criteria applied to banking.

2.3 Freedom and Emotional Management: How much are They Affecting the Financial World?

In spite of the criticisms we have highlighted, the hierarchical model in Italian banks continues to survive. Despite its flaws, it produces results and is accepted by those who work in it. The reasons for this are various, cultural, conformist and psychological; in fact, there are many who are willing to give up their freedom in exchange for protection by doing a job without too many responsibilities (Fromm, 1963). This is probably the deepest reason for the acceptance of the hierarchical-bureaucratic model.

But the idea has also been consolidated that the Weberian organization is natural, i.e. the rule; and top management, all the more so, does not feel the need to change because the hierarchical model offers them power and advantages; on the other hand, new models must be perceived as attractive by management in one way or another in order to be adopted. The pandemic crisis, as mentioned, seems to have triggered changes in the case of telework that may lead to greater decentralization, but questions remain as to management styles and measures concerning corporate welfare in terms of psychological and behavioral needs.

In truth, the issue is not so new. One only has to think of the inverted pyramid of the 1980s (Carlzon, 1985) and the various “organizational revolutions” that were all the rage in the 1990s such as Liberation management (Peters, 1992), Reengineering the corporation (Hammer & Champy, 1993) and Lean organization (Manzolini et al., 1994). In the banking field, the idea of de-bureaucratizing banks with lean and flat models can be found in the strategic-organizational and process redesign strand (Baravelli, 1996; Mottura, 1996) and the theorization of the ‘lean bank’ model (Baravelli, 2003). The topic fits into the debate on ownership and control of the commons in the corporation (Deakin, 2012; Pilotti & Rinolfi, 2022).

These strands of thought recommend a change in management styles: from leading by instruction (command-control) to leadership models based on listening to employees, supporting their work, interpersonal relationships, and learning, including through coaching tools. Innovative management should become more aware (mindfulness) of the importance of empowerment, i.e. of empowering, granting authority and enabling people to do and decide autonomously along the lines of management by objectives. The call for management’s awareness of the importance of human profiles continues to this day, especially in the recommendations of Freedom Management (Laloux, 2014; Solari, 2016) but even more so in the literature on Emotional Management, which highlights the importance of emotional factors in people’s behavior and in individual and corporate performance (Pilotti, 2016, 2019, 2022).

Talking about it should not be perceived as a “flight forward”; but for the culture of the banking sector and the very nature of banking, it can still be a “positive provocation” to mobilize innovative potential. Especially considering the constraints imposed by a regulation that supports determinism, the formalization of structures, procedures and responsibilities, and that imposes very detailed rules to be respected in addition to strict internal and external controls

3. Flat Organization, Middle Management and Dynamic Capabilities Building

At this point, it must be considered that these are changes that undoubtedly require greater trust on the part of top management towards middle management in the first place and its role as organizational integrator and *strategist* (Floyd & Lane, 2000). However, top management is reluctant to delegate and lose organizational power also because it in turn is subject to very restrictive supervisory controls; it therefore prefers to centralize rather than run the risks involved in decentralized decision-making.

The European regulator does its duty, but in recent years, in an effort to protect financial stability, it has increased controls on banks that have indeed become very invasive. It is clear that an excess of rules and constraints imposed on banks hinders organizational innovation, increases *compliance* costs and has a detrimental effect on the performance of the banks themselves. The prevailing criticism of banking economists goes in this direction, while people continue to think that issues such as feelings, emotions and related managerial philosophies are extraneous to the efficiency and effectiveness of business models.

Banks, especially smaller ones, feel the high administrative burden of external controls and agree on the need for truly proportional regulation. The issue of cost reduction is conditioning the organizational evolution of banks, which are tending towards centralization, increasing digitalization of processes and organizational flattening with a strong reduction in the functions and roles of middle management. This has the effect of further isolating positions who no longer have middle managers to refer to, not to mention the loss of the contribution that middle management can make in strategic monitoring, correction and innovation of business models.

The trend towards simplification is often at odds with organizational learning. The divisional model adopted by large banks could be steered towards more participative and transversal structures, capable of inducing more learning behavior, crossing the territorial dimension with that of business and innovation, which probably offer slower responses (from sharing and relational proximity) but also more stable over time (Pilotti, 2019; Pilotti & Rinolfi, 2022).

However, these changes can only take off from a mobilization of top management. Digitalization itself, which has silently triggered an organizational revolution, must however be governed by the organization and a new personnel management. Today we are witnessing, as mentioned in the introduction, a technological transformation of the bank that the organization and personnel are undergoing, while technology needs to be guided by new organizational and managerial paradigms of a participative and empowering type.

If, on the one hand, the change underway calls for greater involvement and less authoritarian and more participative management styles - decentralizing and increasing autonomy - so as not to demotivate people and middle management in operational functioning, one wonders, on the other hand, whether centralized decision-making does not reduce effectiveness and effectively impoverish organizational potential by slowing down the increase and renewal of dynamic capabilities with a medium-term impact on corporate performance. By recombining basic resources in order to make them more efficient, Italian banks have made business models sustainable in the short term but have not necessarily acquired relevant and lasting competitive advantages, if anything, they have realized a transitional advantage and competitive parity (Ambrosini & Bowman, 2009); in fact, competitive capabilities in the banking sector are, as mentioned, mainly about effectiveness and innovation. Achieving these advantages requires a renewal of resources through corporate learning mechanisms by which the firm accumulates new skills (Teece et al., 1990) and an organizational environment that allows for the

continuous renewal of dynamic capabilities (Zahra & George, 2002) consistent with the dynamics of markets and business models to “learn to learn”.

We do not have research and evidence on the role of intangible variables in the banking sector in determining significant competitive and performance differentials (Chen et al., 2014), but the strong strategic and organizational isomorphism found especially among large groups, mainly due to the stringent regulation of the sector (Baravelli & Pesic, 2021), confirms both a certain levelling of dynamic capabilities and management’s perception of external and internal environmental conditions that do not require significant changes and reconfigurations for the time being.

On the other hand, in a highly regulated sector such as banking, there are no significant differences between the resources of banks and competing banking groups operating in the same business areas, unlike other economic sectors where competitive advantages are linked to the preciousness, rarity, inimitability, and irreplaceability of resources, so that strategies and business models are not easily duplicated by competitors (Eisenhardt & Martin, 2000). Moreover, in the banking sector, market changes are not rapid and unpredictable with reference to the regulatory and technological framework, and in any case even economic-environmental changes that may affect performance are cushioned by “accommodation measures” by monetary and supervisory authorities that tend to produce stability.

Defensible competitive positions include those that utilize market power derived from large size as in the case of large financial groups and conglomerates or from the bank’s proximity to the market as in the case of local banks; markets are segmented by customer types and geographically. It is quite clear that with the advent of digital banking, these competitive advantages are deteriorating as a result of the increased mobility of customers, so that the issue of dynamic capabilities takes on great relevance in relation to the ongoing technological evolution.

Given the tendency to adopt best practices, also at the urging of the regulator, the concern of bank management is above all to keep up with the evolution of the system by following imitative logics, also in terms of automation and digitization of processes, which, however, do not create any particular problems of adaptation, except for the difficulties encountered by the smaller banks that end up in the orbit of the large groups, but more for financial than organizational reasons. These banks could in fact grow competitively by exploiting technological innovation and the advantage of investing in expansion, unlike the large banks, which have to streamline with extensive employees cuts and retrain in terms of technology, thus having to deal with a much more complex change that does not take a short time.

If, as Ambrosini et al. (2009) argue, the development of dynamic capabilities depends on management’s perception of the degree of dynamism in the markets, it must be inferred that the consolidation of traditional hierarchical models observed at banks is not a concern of bank management. Looking at the foreseeable scenarios and evolutionary trends of the banking business in Italy, in our opinion, bank management is not only not showing concern for the issue of dynamic capabilities but is also currently underestimating the need for rapid regeneration of core resources should conditions require it.

While commercial banking, prevalent in Italy, will be largely automated, especially for standardized

products, specialized corporate banking activities such as non-traditional lending, problem solving and customized services in securities finance for business development and innovation are set to grow. These activities are required by an Italian economy that, in order to grow, needs above all a banking and financial system that supports investment, especially in infrastructure, and innovation. Carrying them out requires higher skills that are very different from those of traditional commercial banking and in particular retail banking, which is still the core business of many banks, and these skills cannot be set up quickly. Therefore, excessive inflexibility of current resources should be avoided in order not to succumb to the proactive action of competitors that can create defensible competitive advantages.

4. Organizational Flexibility and Resource Renewal

In this paper, we believe that banks (referring especially to large banking groups) in order to put themselves in a position to renew their resource base, just like any other enterprise, must give flexibility and fluidity to the organizational model through decentralization, empowerment and self-organization because these are preconditions for the learning organization that is increasingly necessary to deal with internal and external complexities. In other words, it is a matter of fostering not only the development of incremental dynamic capabilities of current business models to improve their eco-efficiency and eco-efficiency conditions (new forms of currency and payment, for example), but also of creating regenerative dynamic capabilities with which to create diversification strategies and new business models in response to structural changes in markets, demand and competition, which by imposing strategic repositioning require the integration and reconfiguration of basic resources.

Flexibility must be pervasive and the learning organization must cover all parts of the bank's organization and certainly also those in direct contact with the market and the external environment. Thanks to the orientation towards learning on the outside and on the inside that is continuous and widespread at the various levels of the corporate structure - thus not only at the top but also at the middle and operative management levels - the development of dynamic capabilities is stimulated in a systematic and continuous manner regardless of what may be the trend of environmental dynamism, avoiding that when this occurs top management can appropriately govern change. A concern that must always be present and be part of the corporate culture to ensure the bank's viability and development over time.

This does not mean that extraordinary interventions such as alliances are not also necessary to integrate competencies and gain new competitive advantages or better defend existing ones. In the case of the formation of large international banking groups, acquisitions increase size and market power (Dollenan & Rutledge, 2019), but mergers between large banks do not necessarily regenerate resources if organizational models remain bureaucratic and rigid; on the contrary, the increase in size may reverberate old limitations and pre-existing weaknesses.

The main sources of dynamic capabilities reside not only at the managerial level but also at the operational staff level resulting from organizational functioning, decision-making and operational

processes. Moving from hierarchical, centralized models based on command and control, with rigid and bureaucratic procedures, to decentralized, flexible models, where tasks are less formalized and the principles of self-organization prevail - with a flat structure and participative decision-making processes - not only is the company able to respond quickly and effectively to demand but also capable of adapting to variations in end-customer needs, customizing and building loyalty in more profound ways. By increasing its ability to read external changes, the enterprise is then put in a position to perceive market opportunities and threats and also to develop new business ideas. Thus, cost-effectiveness, satisfaction and resource development are objectives that are pursued in a complementary and synergetic manner, creating competitive advantages not only of eco-efficiency but also of eco-effectiveness.

Our thesis is that in these organic-type models, in which social capital is enhanced (Blyler & Coff, 2003), there is a strong learning orientation (Zollo & Winter, 2002), corporate entrepreneurship and experimentation are widespread in the organization (Zahra et al., 2002), dynamic capabilities are continually regenerated in a systematic manner throughout the organization stimulated by the aforementioned factors, responding to the evolution of environmental dynamics, without the company having to acquire them externally or resorting to the intervention of the staff units and competences of the corporate centre (Ambrosini et al., 2009). In essence, we believe that these organizational and managerial models, proposed by the literature on Freedom Management and Emotional Management as a response to the decline in corporate efficiency and effectiveness and in order to reduce the negative effects arising from traditional hierarchical organizational arrangements - including waste, bureaucratization, low motivation and low service levels (Laloux, 2014) - have direct implications with the development and renewal of dynamic capabilities in relation to market changes and strategic portfolio management. Development and renewal of dynamic capabilities occurring both in the identification of new business opportunities (sensing), in the exploitation of these opportunities (seizing) by defining new business models, and - finally - in the transformation (transforming) of corporate resources, renewing and reconfiguring them to align them with customer needs and requirements (Teece, 2018).

5. Developing the Organization's Dynamic Capabilities, Experimental "Circular" Models and the Credem Case: Some Results

As a result of the above, we believe that on the question of how dynamic capabilities are generated, a distinction should be made between those that come directly under management - 'dynamic managerial' capabilities (Ambrosini & Altintas, 2019) - and that impact on the resource base, and those generated by the resource base itself. While at the various hierarchical levels, management builds, integrates, modifies and reconfigures the resources and competences of the enterprise (Adler & Helfat, 2003) according to a top-down approach, in the FE models, it is in fact the resources that are self-renewing thanks to the organizational functioning and it is their conduct that directly determines the competitive

advantage so that the skills and competences that they acquire (and/or transfer in inter--functional and inter--divisional forms), developing and transforming from below within the whole organization that incorporates them, cannot be put in the background. Consequently, the operating characteristics and the nature of the organizational model that nurtures these capabilities and competences, and that systematically develops them, as our analysis suggests, assume pre-eminence. In other words, in organizational models based on decentralization, empowerment and self-organization, dynamic capabilities self-develop and accumulate in core resources that adapt, integrate and reconfigure vertically and horizontally in circular ways (bottom-up and top-down) in the face of external changes and internal business problems thanks to the particular modes and properties of organizational functioning and not only as effects of established processes and routines.

In this perspective, the question of dynamic managerial capabilities should be referred not only to top management but also to middle management and the more operational managerial levels (Ambrosini & Altintas, 2019) because the emphasis on the characteristics of the organizational model recalls the evolution of the dynamic capabilities of the entire enterprise in horizontal and circular forms.

Precisely for the purpose of exploring and evaluating the applicative possibilities of these organizational models and their concrete effects, the authors of this contribution participate in research-intervention groups that follow experimental cases of organizational transformations in the banking sector towards forms of decentralization and self-organization following the principles and objectives that we have outlined above. The considerations we report refer to these practical experiences. A case that we consider explanatory in this regard and which we believe should be briefly commented on is that of Banca Credem (Credito Emiliano) whose experience (Credem Semplice) is reported in the updated Italian edition of Laloux's book (2022).

Credem is a private banking group present in all Italian regions with about 600 branches and more than 6000 employees; it operates in commercial banking, retail banking and wealth management; its mission is to create value for shareholders by excelling in services and customer relations that it carefully looks after. Faced with a constantly changing environment with the presence of large competitors supported by economies of scale, Banca Credem has set out to create a flexible organization based on granting widespread freedom of action to people along lines of self-organization so as to enhance the value of people and streamline business processes by introducing greater elasticity and adaptive flexibility.

Credem has developed an ecosystem of communities of practice that counts the adhesion of over two thousand people on the operating principles of the new organizational model in order to create project sharing on various fronts, from information asset management to agile practices to the development of concrete solutions to the problems emerging from the new model. In 2018, experimentation with the new model started at some central offices and group companies. The changes involved the reduction of hierarchical levels, the enhancement of skills and the self-activation of people. Management figures are no longer understood as bosses but as facilitators and managers of people's development and growth, with the aim of developing in the bank the principle that leadership must be diffuse and collaborative.

People and management have therefore had to review their way of working and internal relationships. Overall, strategic planning schemes themselves have changed, relying on principles of adaptive “proximity” and learning with team-work logics and archipelagos of inter-functional and multi-competence projects interconnected by the molecularity of “arborescent” circular dynamic capabilities. Strategic-operational governance trajectories that make Credem Bank a “living and dynamic organism”.

In fact, based on the analytical contribution of Laloux (2014), the project, managed according to the classic top-down system, followed a more broadly participative approach in the years following 2019, leaving people the autonomy to reorganize their own units or aggregation of units resulting from the restructuring and unification of parts of the bank. The guiding principle has been that of continuous confrontation and learning, the activation of common decision-making processes and shared decisions by systematic triangulation of adaptive change, interfacing technologies and access to information, and mobile and circular team-work in the training and transfer of dynamic skills.

The change is continuing and is being monitored by a mixed (academic-managerial-consulting) analysis-intervention research group that functions as an operational observatory on the transformations taking place with the objective of monitoring and understanding how the new model - reflecting the FE paradigm - influences organizational behavior and performance taking into account that team-works are devoid of formal hierarchy and are only assisted by tutorship roles consisting of team leaders and competence leaders who guide and orientate the “flight of the flock of starlings” (Parisi, 2021).

These objectives include the testing of the learning process and the creation of dynamic (circular, incremental and regenerative) capabilities concerning:

- a - quality of service and customer relations,
- b - speed of execution, efficiency, flexibility and adaptation to the market,
- c - product and business model innovation.

At the same time, the focus is on:

- d - evolution of corporate culture,
- e - motivation and cohesion among people,
- f - degree of cooperation and mutual trust,
- g- acceptance of error as a learning moment.

Considering what has been observed by Eisenhardt and Martin (2000), we believe that the FE model, applied to the banking sector, offers elements to reconcile the different conflicting views on dynamic capabilities (Peteraf et al., 2013) that would be subject to boundary conditions and thus unable to sustain competitive advantage in the face of any environmental dynamics whether moderately fast or high speed. The critical aspect absent from this debate is the role played by the organizational model. Unlike other models - especially the hierarchical-bureaucratic ones that operate with relatively stable and linear routines (Nelson & Winter, 1982) -, the FE model thanks to self-organization modifies and regenerates them according to the trends and problems of the external and internal environment within

a continuous circular dynamism. When the environment becomes very dynamic, the best practices of rigid organizational models that have been consolidated in a moderately dynamic environment are not rapidly modifiable because they are strongly path-dependent and are therefore ‘displaced’ by external change and unable to restore competitive advantages or renew them; conversely, in lean, organic models, such as the FE models, it is not so much the routines that are decisive for learning as the nature of the organization itself that learns by self-modelling, recombining and hybridizing resources more rapidly in the face of unpredictable changes, widening the area of action and intervention with respect to the traditionally narrower area of control. The enterprise is able to recreate value by assuming the role of first mover. The dynamic ‘circular’ capabilities are unstable but recreative of adaptive potential due to the organizational model that forges resources and transforms them. As Eisenhardt and Martin (2000, p. 1118) argue, ‘long-term competitive advantage lies in resources configurations, not dynamic capabilities’.”

6. Discussion: Banks, Corporate Welfare, Innovation and the Role of the Quality of Human Capital

Taking note of the picture described, in our opinion most Italian banks are underestimating the thought movements and organizational trajectories underway in the more advanced corporate world by not taking up the challenges of the natural evolution of organizational models. In fact, the organizational structures of companies have followed a well-defined path over time: they have moved from vertical, hierarchical and mechanical models to increasingly decentralized, flexible divisional models that are becoming more and more matrixed and reticular or communitarian; flat, less heavy and more participative organizational models are thus prevailing.

It would therefore be a mistake for banks to close themselves within their hierarchical, mechanical and vertical boundaries and not seize the opportunities inherent in the emerging eco-systemic change. In other words, the banks’ business cannot remain neutral with respect to the overall evolution underway, which requires greater capacity to adapt to environmental change and the changing needs of demand, including those of Generation Y and Z. In other words, in order to stay on the market, it is no longer enough to improve efficiency by cutting costs and increasing size through M&A strategies, but to explore the opportunities arising from the governance of change resulting from new balances between eco-efficiency and eco-effectiveness by focusing on the valorization of human capital through the mobilization of circular dynamic capabilities and deconstructing hierarchy and traditional forms of routine control (Pilotti & Micheletti, 2019).

In the face of increasingly uncertain and unstable scenarios, the ability to adapt rapidly to environmental and market changes and thus to recombine resources and innovate has become absolutely critical. This means adopting organizational models that are not only more efficient and motivating but also increase knowledge and dynamic capabilities (Helfat et al., 2007). The traditional hierarchical organizational forms of banks and especially of large banking groups create rigidities that

hinder creativity, initiative and accountability; it is therefore necessary for banks to adopt organizational and managerial models that promote creativity and innovation by restarting from the connection between human capital, semantic and social capital that increase reputational values and cognitive productivity (Floridi, 2009, 2014, 2019; Pilotti, 2016, 2019).

While digital technologies have enabled Italian banks to streamline structures and simplify operational processes, thus meeting - at least so far - the need for efficiency gains, there remains the problem of the effectiveness of managerial models that continue to be hierarchical-bureaucratic. The prevalence of a neo-technological approach as a resolver of the sustainability of banking business models, in conjunction with greater decision-making centralization and controls following the economic crisis and restrictive regulation, has stiffened banks' organizational structures and work processes with a risky involution and demotivating effects by trapping motivational potentials in procedural rigidities.

The competitive and innovation challenge requires banks to attract the best talent, unwilling to work in bureaucratic contexts, and to mobilize the potential of people's emotional and collaborative intelligence that current hierarchical models are squeezing. Corrections must therefore be made if not real transformations of current managerial models by mobilizing circular dynamic capabilities. In creative processes and innovation, the difference is made by the skills and quality of human, managerial and professional resources, which cannot be replaced by technology, machines, artificial intelligence or algorithmic procedures. The top management of banks must therefore move away from the traditional culture of merely rationalist organizational practices and make a paradigm leap by embracing the governing principles of interactive, empathic, non-conformist (or ambidextrous) and enterprising organizations.

It is precisely these aspects that we feel we must emphasize because on a practical level, the paradigm shift we are talking about implies multisensory leadership models and the acceptance of Emotional Management principles and corporate welfare, motivational and ethical-value program that underpin the development of productive and innovative potential in the medium to long term.

On the other hand, this means responding to the expectations of bank employees and the criticism of a middle manager who is demotivated because he is not only unstructured but also weakened by the centralization of decision-making. What Weber had divided - seeing emotions as "distorting efficiency" - must be recomposed, bringing together factors of "rationality-efficiency" (functionality and continuity of processes) on the one hand and factors of "irrationality-emotionality-variety" (innovation and creativity) on the other. Two families of factors that can no longer be separated, even in banks, because innovation derives from sources of shared creativity and wellbeing, both individual and collective (as well as organizational), and therefore a source of *sense-making* and - we might say - also of "shared happiness" (Fineman, 1993; Felice, 2017).

As for the fact that feelings and emotions (such as fear, awe, surprise, trust, disappointment or euphoria) are to be inhibited because they are not rational, this is just a "narrative" that leads astray (Shiller, 2019) towards an erroneous and dystopian view of reality because it is de-contextualized. In the behavior of

people, of a client, of groups of individuals, the psychological aspects, feelings and emotions, which exist concretely, often also have a decisive influence by characterizing specific contexts that need to be understood in order to be dynamically managed. In sustaining - as in mature Fordism - that people must “suffocate” their feelings and emotions to increase rationality and efficiency, one fails to grasp the nature (and reality) of organizational structures that cannot be likened to systemic machines but to ecologies populated by subjects characterized by deep motivations and immersed in widespread relationships: ignoring their influence and impact does not allow one to understand when and how these factors operate in a positive or negative sense and therefore does not make us capable of intervening and acting. Whereas organizations should be prepared to do exactly that: understand the motivational and emotional climate in order to act, promoting its innovative potentials or mitigating its impacts, especially on conflict.

In conclusion, in a European economic scenario of great uncertainty, Italian banks must show greater adaptability by increasing strategic and organizational flexibility. With the automation of many activities, especially elementary ones, banking work will in the future mainly concern specialized activities such as problem solving and customized services to companies (and people) that require more skills. In the bank of the future, technical-professional specializations and the role of high-skilled product/service or process professionals in various sectors will prevail. As a consequence, banks need management and staff with listening skills and not only rationalist-procedural-efficient skills, i.e. also relational-communicative skills to promote participation, dialogue, involvement of people and active motivation to contribute ideas and creative contributions for strategic and operational renewal.

Mechanical-bureaucratic arrangements create conformist behaviors by imprisoning emotions, curiosity and learning and thus imagination as primary sources of innovation. A new managerial model therefore becomes essential for the development of an emerging organizational culture that can develop:

- 1 - more autonomy to business units;
- 2 - the role of middle managers in personnel leadership and strategic processes.

The literature on Freedom Management and Emotional Management theoryzes that the organizational future of companies is linked to the principles of hierarchy reduction and self-organization. In this paper we posed the question of the relationships between these flexible models, the development of dynamic capabilities and the transformation of banking business models.

From our analysis of the organizational problems of Italian banks, a number of priorities emerge as drivers of medium-term change to enhance circular dynamic capabilities:

- i - de-bureaucratize,
- ii - reduce the weight of the hierarchy, lighten the often formal and insubstantial controls,
- iii - empowering,
- iv - focus on skills development.

These are challenges that the top management of Italian banks and banking groups must face. It is therefore necessary to look to the future with the awareness that there are alternatives to

hierarchical-bureaucratic structures even in times of crisis and in a context of stringent regulations and constraints. New organizational policies must accommodate the demands and aspirations of people:

- v - looking at their psychological and cognitive-relational well-being,
- vi - by granting more autonomy and decentralizing responsibilities,
- vii - applying the principles of self-organization,
- viii - reducing the rules to support more internal relations.

All this means investing in people by giving them greater autonomy; it means igniting new sources of cognitive productivity, creativity and team building to broaden the conditions of mindfulness (Pilotti & Rinaldin, 2002) These are essential prerequisites to ensure that banks can develop in a scenario that requires adaptability and strategic and organizational flexibility and that will see the development of banking business models more based on the skills, knowledge and abilities of more participative and involved human resources.

New organizational models therefore need to be set up, and the most promising path is the combination of open professionalism, capable of managing the exploration of complexity, and delegation, decentralization and self-organization. In this way, new ideas can be generated and value produced through the release of emotional and collaborative intelligence, including team-work and hybrid work between digital and real, between culture and technology, between science and nature (Goleman et al., 2002).

Our conclusion is that the creation of circular dynamic capabilities (namely their integration and combination in vertical and horizontal dimensions) with which to cope with environmental uncertainty and even rapid and unexpected changes lies in the nature and type of organizational and managerial model that fosters the self-generative incorporation of those dynamic capabilities (Eisenhardt & Martin, 2000) and that systematically forges resources and enables their reconfiguration for the creation of new competitive advantages through hybridisation and contamination of standard and non-standard skills and competences.

Our thesis thus shifts the focus from routines and individual processes to the functioning of the entire organizational system and from external dynamism to internal dynamism and the development of self-empowering capabilities hinged on new (individual and collective) autonomies and responsibilities. As for research perspectives, we argue the need to complement the literature on dynamic capabilities and RBV with that on organizational models and managerial models (Baravelli & Pesic, 2021) that facilitate rather than hinder the development of circular dynamic capabilities. In this paper we refer to the paradigms of Freedom and Emotional Management (Baravelli & Pilotti, 2021; Pilotti, 2019; Pilotti & Rinolfi, 2022) and to the principles of self-organization by which we believe that banks, but more generally firms, can build circular dynamic capabilities internally rather than buying them externally (Makadoc, 2001).

Such organizational models are not only more efficient, productive and motivating but also capable of self-regenerating and self-configuring, of systematically learning externally but also internally. The

authors of this paper set out to verify and explore this thesis by studying the learning organization processes arising from such models - which we have termed Free-Emo - in the transformation of traditional banking organizational models.

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Notes

Note 1. Along a rethinking of Dosi, Nelson and Winter (2000) concepts we can see Madsen (2010).

Note 2. We have to recall - about that specific topic - the seminal contribution of Chris Argyris in the 70's because he tried to focus on the reason that pushes organizations to set goals that often conflict with their needs and with the needs of the people who work in them. In particular, he criticized the rigid bureaucracy that was so often seen (and still seen) managed "top-down" and communications dropped from above and (in many cases) not received or misunderstood. The excessive need for control by the management leads to clip the wings of employees and not to take into account their personal goals. Acting in this way is certainly wrong – following Argyris - because it leads to not channeling all the energies present in the company in the best possible way, causing dissatisfaction and conflicts. As people grow up and become more experienced they tend to become more independent and active because they will have as its interests to learn as much as possible to increase their knowledge and skills and, consequently, their value on the job market and will be happy with any task we make him carry out, in particular - we can say - integrating vertical and horizontal competences towards dynamic ones. Because often is difficult to keep them aligned with objectives they do not share. A trajectory of transformation really anticipated by work of Argyris (in particular by works of the 70's) exploring the organizational learning and criticizing hierarchical modeling in a new theory of motivation. See Argyris and Schon (1974).