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Systemic in-house consulting: an answer to building change capacities in complex organizations

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ABSTRACT

Challenged by the increase in parallel change projects, many organizations have created internal change consulting teams. One theoretically inspiring and practically important phenomenon that we find in our empirical context of a German multinational company is systemic in-house consulting (SIHC). This change consulting approach, which intervenes on the back of strong system-theoretical considerations, faces a paradoxical challenge: to consult on organizational change from within, without the cachet of an external expert. Using the case of an automotive supplier creating SIHC as a coping resource for multiple, heterogeneous, and parallel change processes, the article both examines and illustrates SIHC. We argue that increasing change needs have the potential to stimulate organizational change capacity and that SIHC offers one very concrete and workable expression.

KEYWORDS

In-house consulting; change capacity; multiple change contexts; system theory; phenomenon-driven research

Introduction

Organizations today face multiple forms of change, leading to increased uncertainty (Sturdy, Wylie, & Wright, 2013) and the need for developing the capacity for managing change (Meyer & Stensaker, 2006). One typical and frequent organizational reaction to coping with change is hiring external consultants to gain additional resources and knowledge (Mohe, 2005). Other organizations invest in enabling their managers to develop skills for handling change processes more effectively (Furnham, 2002; Scamperle & Bohn, 2015). Whilst the first approach necessitates the management of external consultants, with their departure often leaving the organization to its own devices, the second approach leads to focusing on managing only single projects and to putting strain on individual managers. Neither approach tackles the challenges that organizations face in dealing with multiple change contexts nor encourages organization-wide development of change capacity.

However, a third approach involves organizations creating their own consulting teams (Scott & Barnes, 2011). These in-house consultants are internal specialists that consult on and support change processes. In contrast to external consultants, internal consultants know the organization intimately, can build long-term internal relationships, and can

leverage and utilize informal and formal organizational structures. Their knowledge of the organization, their ability to follow long-term initiatives with internal ownership, and their involvement in multiple change processes are particularly beneficial for building organizational change capacity (Scott & Hascall, 2000).

A remarkable in-house consulting phenomenon in our empirical context of German multinational companies is what German speakers call ‘systemic in-house consulting’ (SIHC) – an approach strongly influenced by new system theory (Luhmann, 1995, 2000). System theory serves as both a central reference for SIHC’s professional standards and a reflection of its change management and organizational development practice. Based on the observation that (particularly) larger German organizations have established SIHC for organizational development and change (Krizanits, 2009), this article explores SIHC, with its consulting services that range from change management, team development and strategy development to coaching. The article both examines and illustrates SIHC, showing in depth how an organization uses in-house consulting to build its change capacity.

One particular aspect of the SIHC phenomenon is its theoretically inspired professional self-understanding, strongly influenced by Niklas Luhmann’s theory of organizations (2000). The formation of the systemic consulting approach has even led to a lively discussion of different consulting paradigms (Schumacher, 2011), including expert and process consulting and combined forms such as ‘complementary consulting’ (Königswieser, 2008) and the ‘third modus of consulting’ (Wimmer, 2007).

Since SIHC – as a way of building of change capacity – is highly relevant for both academics and practitioners, we apply a phenomenon-driven research (PDR) approach (Lawrence, 1992; Schwarz & Stensaker, 2014). This approach allows us to more deeply explore and explain SIHC as a workable form of building up an organizational change capacity. Given that PDR does not treat the research object as merely an arena for theory testing (von Krogh, Rossi-Lamastra, & Haefliger, 2012), we thus contribute to the literature on change management, particularly on organizational change capacity, by facilitating an enhanced understanding of SIHC as a phenomenon.

The article is structured as follows: the background section briefly outlines both the challenges that organizations face in establishing change capacity and the actors involved (e.g. change agents, external consultants). The next section presents the phenomenon of SIHC and describes its theoretical roots and key practices. The section after that outlines the research method and describes the empirical context of a German automotive supplier’s consulting group, with the following section illustrating the recurring practices of SIHC within a specific consulting project. Finally, the article discusses the implications and requirements for building change capacity from the perspective of in-house consulting.

Background section: change capacity, change agents and a systemic understanding of change consulting

Multiple organizational change contexts requiring change capacity

Research on change management is receiving increasing criticism for its one-sided focus on individual changes, a focus neglecting the management of multiple simultaneous

change processes at different levels (Pettigrew & Whittington, 2003). Parallel changes are different interwoven processes of, for example, merger or post-merger activities, continuous improvement efforts, or development of new organizational designs in parallel streams of activities. From an overall organizational perspective, the isolated management of these simultaneously occurring change activities risks missing adverse systemic effects on daily operations, as well as parallel – or later – change processes. This problem is a challenge particularly for larger, more complex multinational organizations (Miller, Greenwood, & Prakash, 2009) that need to constantly change and reinvent themselves. Unfortunately, the predominant models of change, such as Lewin's (1947) three-step model (unfreeze-move-refreeze), Kotter's (1996) eight-step model, or the punctuated equilibrium model (Tushman & O'Reilly III, 1997), suggest a relatively narrow perspective on the dynamics of organization-wide processes.

The overall organizational perspective on such simultaneous change activities – particularly in larger and international organizations – is frequently neglected in both the practice of and research on change management (Schwarz & Stensaker, 2014). In practice, individual managers and external consultants focus on a single change project, often unaware of either parallel changes or the resulting dynamics. Yet the capacity to manage change has been identified as a competitive advantage and a prerequisite for organizational survival (D'Aveni, 1994), and organizations' need to develop this capacity has been widely recognized (Levinthal & March, 1993; Meyer & Stensaker, 2006; Pettigrew & Whittington, 2003). Both practitioners' and researchers' increased interest in change capacity has inspired both various theories (Soparnot, 2011) and several definitions of how change capacity can be understood as an organizational ability (Meyer & Stensaker, 2006; Pettigrew, 1985).

However, the question of how to develop the capacity for handling these simultaneous changes remains under-researched. Pettigrew and Whipp argue that one main challenge for organizations in the field of change management is to establish 'the ability to manage a series of interrelated and emergent changes (often in parallel and in sequence)' (1993, p. 20). Observations such as these spearhead the demand for empirical studies to explore how organizations are building capacities for change (Meyer & Stensaker, 2006). In this article, we follow Meyer and Stensaker's definition of change capacity as 'the allocation and development of change and operational capabilities that sustain long-term performance' (Meyer & Stensaker, 2006, p. 220). This understanding acknowledges not only that these change processes are often interrelated and require an ability that goes beyond a single change initiative but also that these multiple change contexts can serve as a possible source for the development of a capacity for adaption, flexibility, and innovation.

Understanding change capacity as an organizational ability raises the question of how this capacity is formed within organizations. To explore how the phenomenon of SIHC differs in contributing to change capacity, we compare SIHC to important actors such as internal change agents and external consultants. This comparison will show how SIHC contributes to change capacity: in-house consulting not only mobilizes organizational resources (e.g. structures, cultures, organizational members, practices), but also links them with change processes to match organizational development with the evolution of environmental conditions.

Different change agents and the systemic perspective of the client-consultant relationship

Internal change agents, external consultants, and in-house consultants are important assets for organizational change and the development and achievement of change capacity. This section presents and discusses these three groups.

Change Agents. Recent studies both recognize and acknowledge the catalyzing, initiating, or mediating role and importance of change agents (Benn, Dunphy, & Griffiths, 2014; Van der Heijden, Driessen, & Cramer, 2010). Change agents are 'helping a system to change, from either the inside or outside, and in either a proactively initiated or reactively initiated relationship' (Ottaway, 1983, p. 383). Studies that focus on organizational change agents include the educational and technological diffusion of innovation (e.g. Rogers, 2003), examination of change agents' competencies or classifications (Caldwell, 2003; Ottaway, 1983), or their impact on sustainability (Millar, Hind, van der Heijden, Cramer, & Driessen, 2012). Whilst these studies offer insights into change management roles and necessary skills (Benn et al., 2014), they are limited in outlining the implications of change capacity. Moreover, they even appear to suggest that change agents, who are usually charged with managing a particular change process, also apply a limited perspective.

External consultants. The field of organization development has a long tradition of outsider consultants (and scholars) working together with internal people to facilitate change (Ottaway, 1983; Waddell, Creed, Cummings, & Worley, 2013). Moreover, the role of external consultants in organizational change processes is attracting increasing scholarly attention (e.g. Armbrüster, 2006; Clegg, Kornberger, & Rhodes, 2004; Mohe, 2005). Despite the various communication barriers that these consultants face, they are considered intermediaries in organizational changes (Wright, Sturdy, & Wylie, 2012) and have substantial influence on organizational development (Kieser, 2002; Sutter & Kieser, 2015).

The literature on external consultants covers a range of factors linked to change capacity, including the interaction between client and external consultant (Macdonald, 2006; Werr & Styhre, 2002), the different roles of external consultants (Kakabadse, Louchart, & Kakabadse, 2006; Schein, 1999; Schumacher, 2011) and knowledge transfer between consultants and clients (Handley, Clark, Fincham, & Sturdy, 2007; Ko, Kirsch, & King, 2005). Although no studies explicitly explore the influence of external consultants on change capacity, the literature on change management appears to suggest that despite external consultants' cachet as outside experts, the combination of both their focus on a specific change project and communication barriers with organizational staff limits their contribution to change capacity.

In-house consultants. A recent trend in organizations is to form their own internal consulting functions (Krizanits, 2009; Scott & Barnes, 2011). In-house consultants are specialists supporting 'client-requested change without formal authority to implement recommended actions' (p. 4). That these consultants, as employees, are part of the organization in which they are doing the consulting creates specific possibilities and challenges. On the bright side, in-house consultants intimately know the organization, the history, and the business, and can build long-lasting relationships, create rapport more easily, and be accepted as a member of the same organization (Krizanits, 2009). However, their intimate knowledge of the organization and its employees sometimes

jeopardizes their (perceived) neutrality, and their in-house clients may believe that they lack an objective outsider perspective. That they are often positioned in a middle organizational tier and often report to the HR department might sometimes hinder cooperation with senior executives, who may view the consultant as a subordinate or representative of the HR function (Foss et al., 2005). In the next section, we introduce the phenomenon of SIHC and outline the theoretical underpinning.

The phenomenon of systemic in-house consulting (SIHC)

Theoretical background of SIHC

The SIHC phenomenon as a consulting practice is strongly influenced by system theory (Luhmann, 1995, 2000) and can be found particularly – but not exclusively – in German multinational organizations. The practice of SIHC incorporates elements from other approaches such as the learning organization (Senge, 1990), process consulting (Schein, 1999) and systemic family therapy (Palazzoli & Boscolo, 2004). Systemic approaches in consulting have developed over the last 30 years from a niche phenomenon to a well-recognized consulting approach. The systemic consulting approach has been strongly influenced by Luhmann's new system theory (1995), which understands organizations as being constituted by communication (2000).

Unfortunately, most of Luhmann's writings are still not available in English, making the discussion of his organizational perspectives and its implications for change management consulting topical largely in German-speaking countries. The SIHC approach views the consulting practice as an intervention in a complex social system, an intervention focusing on mobilizing the organization's capacity to develop its own solutions and to change, for example dysfunctional interaction patterns. The key purpose of SIHC is to develop and increase the organization's capacity for decision-making and acting.

In-house consultants, who are usually accepted members of the organization and who thus enjoy insider credibility (Scott & Barnes, 2011), face different communication barriers than external consultants do (Kieser, 2002; Sutter & Kieser, 2015). For systemic in-house consultants, the systemic consulting approach constitutes a central reference for their professional practice. The systemic consulting principles (e.g. consultant neutrality, reflexivity, and multi-perspectivity) and the application of systemically inspired tools (e.g. clarification of context and expectations, appreciative inquiry, and solution-focused questions) (Schumacher, 2013) serve as a source of inspiration and increase manoeuvring room for consultants.

As a detailed discussion of the implications of Luhmann's system theory for consulting practice is beyond the scope of this paper, we briefly outline five systemic consulting approach characteristics (based on Luhmann's theory) that essentially explain the practice of SIHC.

First, in Luhmann's view, organizations do not consist of human beings *per se* but of a network of communications. He depicts an organization as a self-referential communication system that

itself constitutes the elements that compose it [...] and runs reference to this self-constitution through all the relations among these elements, continuously reproducing its

self-constitution in this way. [...] [S]elf-referential systems are *closed* systems, for they allow no other forms of processing in their self-determination. (1995, pp. 33–34, italics in original)

Because organizations distinguish themselves from their environment, Luhmann theorizes that the communications of a particular organization can connect only to those communications that are part of the same organization (otherwise, the communication would not constitute a system). Therefore, although dependent on the resources in its environment, the system is determined not by the environment but by the system itself. As other organizations (e.g. a supplier organization or a cooperating consultancy) are part of the environment of a particular organization, they thus cannot enter into any other system. In other words, the self-referential character of each organization establishes a different logic and leads to a communication barrier, for example between clients and consultancies (Kieser, 2002).

Second, given the operational closure of each organization and the impossibility of a direct influence from outside the system, organizations establish their own idiosyncratic meaning structures, according to which their communications are made meaningful. Thus, meaning becomes the medium through which an organization reproduces itself, and the meaning of each communication within a particular organization is determined through the network of that organization's other communications. According to Luhmann meaning is directly related to both intentionality and a horizon of possibilities:

The phenomenon of meaning appears as a surplus of references to other possibilities of experience and action. Something stands in the focal point, at the center of attention, and all else is indicated marginally as the horizon of an 'and so forth' of experience and action. (1995, p. 60)

As a result of this self-referentiality and the consequent inter-organizational communication barriers between different organizations, Kieser et al. (Kieser, 2002; Kieser & Wellstein, 2007) show that consultants and clients operate with completely different logics, making a direct transfer of meaning between them impossible. Thus, consultants, rather than 'supporting the client in finding solutions to their problems [...], cause "perturbations" in the client's communication processes, inducing the client system to construct its own meaning from it' (Mohe & Seidl, 2009, p. 3). At best, the communication between consultants and clients can cause a mutual 'perturbation' that is internally (re)constructed within the organization.

Third, organizations as self-referential communication systems have the 'ability to establish relations with themselves and to differentiate these relations with their environment' (Luhmann, 1995, p. 13). Applying this system/environment distinction, organizations thus demarcate themselves from the rest of the world by making distinctions between themselves and the environment (Seidl & Becker, 2006). 'Once the distinction is drawn, the spaces, states, or contents on each side of the boundary, being distinct, can be indicated' (Spencer Brown, 1967, p. 1). The concepts of distinction and indication are combined in Luhmann's understanding of observation: '*Observing* can be defined as an operation using a distinction for indicating one side of the distinction and not the other' (Luhmann, 1993b, p. 485, italics in original).

This organizational observing and distinction-making is important for consultants who might – as second-order observers (i.e. observers who observe another observer) – make the organization realize that it is applying a particular distinction in one of its observations.

As a distinction is always composed of both a marked and an unmarked space (Spencer Brown, 1967), a consultant may point out the unmarked spaces to the organization as its blind spots. Given that the organization cannot observe its own underlying distinction (which it is applying in the moment of operation), the consultant as a second-order observer can make this blind spot visible by making it the subject of a discussion. However, because consultants are also subject to producing their own blind spots, they also apply a distinction.

Fourth, whilst the idea of the system's relation to its environment is crucial to Luhmann's understanding, he avoids depicting it as a classical input–output relation. Yet although Luhmann considers direct input into a self-referential system impossible, changes in the environment of an organization (Luhmann's 'perturbations') are not likely to be entirely random. Luhmann refers to Maturana's (2002, pp. 15–25) notion of 'structural coupling', which describes a degree of adjustment between the system and its environment, as evading a causal relationship. Thus, although each system is operating according to its own internal logic, events in the environment – structurally coupled with the system – can trigger an adjustment within the system.

Therefore, the environment can only be a source of perturbation for the system: direct transfer of knowledge or meaning is impossible. Changes or 'inputs' are perturbations that influence the system only as these changes are (re)constructed within it. As a consequence of the organization's structural coupling, the organization can resonate with the environment – but only according to its own internal logic.

The concept of 'structural coupling' is important for change consultants because it offers a useful way of analysing how an organization reacts to outside interventions. Moreover, the notion of structural coupling means that consulting does not take place *in* the client's organization but rather that clients and consultants constitute two separate autopoietic communication systems that are structurally coupled through a third system. Luhmann calls this third system the 'contact system' (Luhmann, 2005, p. 360).

Fifth, in line with communication constituting organization (CCO) scholars (Cooren, Kuhn, Cornelissen, & Clark, 2011; Schoeneborn, 2011), Luhmann emphasizes that communication constitutes organizations. Moreover, he argues that organizations, like other systems (e.g. families), have a single communicative operation mode. For organizations, Luhmann (2000) follows March and Simon (1993), viewing 'decision communications' that connect one decision to another as constituting, reproducing and assuring the organization's continuity and stability. By connecting single decisions, organizations establish a chain of decisions, a chain that in turn ensures the organization's continuity.

Safeguarding the commitment of organizational members involved in subsequent decision-making processes is important for organizations, because such commitment may increase the likelihood that the initial 'decision' will actually become a decision. Thus, in the consulting process middle management's involvement in the decision can constitute one way of improving the chances of the continuation of chains of decision. An example of such involvement is collecting feedback from important stakeholders with major influence on the processes that follow a decision.

The next section describes the SIHC approach in more detail, highlighting the central consulting practices of the approach. Later, in the findings section, these consulting practices are illustrated concretely within the context of a specific consulting project, showing

how these in-house consulting practices play together and contribute to building change capacity.

SIHC consulting practices

Important elements that the SIHC consultants regularly apply and that we find in our empirical context include a number of practices:

- the blue circle, which clarifies the client's expectations
- the case clinic and information network meeting, which integrates and enhances team-internal knowledge practices
- the inner/outer circle, which stimulates the change of perspectives
- the contact system, which promotes the consultants' enhanced understanding of their interface with the customer

Whilst this section introduces and explains these practices, examples of their application appear in the illustrative example in the findings section.

The blue circle – a particular type of process for conducting the consulting projects, and which attaches great importance to clarifying the client's expectations – allows SIHC consultants to enter the logic of the client system in a structured way (Figure 1). The blue circle comprises tools and templates for each step, for example, a detailed exploration of the client's situation, with specific questions that help to reveal the client's desired outcome. To prevent themselves from making rash assumptions about the 'right' solution, SIHC consultants must actively consider the client's perspective and constantly reflect on the client's logic. As practices such as the blue circle enable SIHC consultants to develop a thorough understanding of the client's meaning-making, these practices constitute a pre-requisite to, and a key contribution of, SIHC to organizational change capacity.



Figure 1. The blue circle process.

The case clinic takes place monthly as a team effort, with all the consultants presenting their projects, including planned interventions. In a structured approach, the consulting team colleagues openly reflect on the case and present their perspectives or suggestions for different ways of proceeding. The insights from this exchange contribute to the consulting work in all on-going projects and often lead to new approaches and instruments for future consulting.

Another practice that the SIHC group uses to make different perspectives explicit is the 'inner/outer circle'. In a workshop with members of different organizational groups (e.g. managers from different departments), one group is seated in an inner circle. The other group or groups sit in an outer circle, listening to the exchange amongst the inner-circle participants. This method helps the workshop participants both learn about and experience different perspectives amongst the different groups.

To both understand and enable cooperation with the client organization, the SIHC group always establishes a contact system for the consulting process, a system consisting of representatives of both the client organization and the consulting group. This system supports the planning and organizing of the overall consulting process through the structural coupling of SIHC and the client organization. Thus, all the members of this system share a double belonging – both to their individual organization (client or consultant organization) and to the contact system itself. As the SIHC group members are constantly consulting on different projects and are therefore part of different contact systems, they continually maintain close contact with various parts of the organization.

This exposure to both different contact systems and various consulting projects leads to the near-constant generating of insights, which the SIHC consultants regularly exchange at bi-weekly information network meetings. In these meetings, they exchange observations and experiences from their in-house consulting practice, develop assumptions about organization-wide change patterns, and generate suggestions for their pro-active contributions to organizational development.

The next section presents, first, our method for exploring the SIHC phenomenon and examining how an organization uses in-house consulting to build its change capacity. Second, we describe, the empirical context of our study. This context is particularly promising for examining SIHC and for exploring how an organization uses in-house consulting to build its change capacity, particularly as the SIHC team within the organization is continuously confronted with different change consulting projects from different parts of the organization.

Research method and empirical context

Research method

Given that organizational change capacity is increasingly important for organizations facing multiple change contexts, and that SIHC remains under-researched, this article applies a phenomenon-driven method. PDR differs from the way in which most organizational research develops knowledge. Instead of starting with an existing theory, PDR first distinguishes a phenomenon that stands out from other facts and occurrences. By so doing, PDR both offers new insights into ways of how organizations deal with change

and supports further research development. Both the unique characteristics of SIHC and its potential for helping organizations develop (better) change capacity indicate the applicability of a phenomenon-driven method.

Following von Krogh et al. (2012), who describe requirements for making phenomena researchable, we take a collaborative research approach (Shani, Mohrman, Pasmore, Szymne, & Adler, 2007). Our collaboration, which can be understood in terms of engaged scholarship (Hatch, Schultz, & Skov, 2015), allows our exploration of SIHC to benefit from the combination of preferred practitioner access and the external research perspective. In addition, we also benefit from the joint data collection, data analysis and writing of the article.

Data collection included 19 semi-structured interviews, with questions including inter alia the organization of the consulting group, the narration of concrete consulting projects, and cooperation and knowledge exchange amongst the consultants. In addition, we collected and analysed multiple documents from the in-house consulting group, and attended and took notes during various pre-workshops and meetings. Moreover, the SIHC group organized a workshop with all in-house consultants to discuss and validate the group's particular characteristics. (Whilst SIHC is an actual department within the organization in the illustrative example in the following section, this article uses the term 'the SIHC group' to help distinguish this department from the various other departments with which it consults.)

In our data analysis we followed Miles and Huberman (1994), who suggest three procedures for qualitative data analysis: data reduction, data display, and conclusion drawing. First, we reduced the mass of our data and organized it by writing a case study revolving around a particular change project carried out by the SIHC group. This case study helped us both explore the consulting practice and understand how SIHC practices enable organizational change capacity. Second, to help us draw conclusions, we constantly displayed the data in the form of tables. This process, starting with the data collection, continued throughout the research process. As we focused our attention on the systemic self-understanding of SIHC and the way the consultants cooperated with their clients, particular themes emerged, showing how the consultants' practice related to the change capacity.

Third, we ensured the trustworthiness of the analysis by giving the SIHC consultants a summary of our results and asking them for critical feedback on the analysis, the findings and the interpretation. Moreover, the researcher (author 1) and the practitioner (author 2) constantly critically reflected on the findings throughout the entire analysis. This process was particularly important because we knew that our entry (to the organization) through the second author (and key informant) might not only influence how members of the organization treated us but also affect the information with which we were entrusted. However, both the consultants and the clients showed great openness and frankness in their interviews, embracing the opportunity to reflect on their practices and experiences. Additionally, this close cooperation with the practitioners not only helped us understand theoretically how the SIHC phenomenon relates to change capacity but also forced us to consider how our insights could be better related to practice.

Empirical context

ZF is a global automotive supplier that acquired TRW Automotive in 2015 and is now represented in about 230 locations in 40 countries. With company sales exceeding €30 billion and with 134,000 employees, ZF is one of the biggest automotive suppliers worldwide. Founded in 1915, ZF started with the development and production of transmissions for airships and vehicles. Today the group's product range comprises transmissions and steering systems, as well as chassis components and complete axle systems and modules.

ZF has a long tradition of different internal consulting units, particularly on production optimization (lean production, project management). In 2012, an in-house consulting group was created for supporting change processes in connection with strategy development processes, organizational design and team development processes. The new head of HR set up this in-house consulting at the group level, stressing the need to strengthen the company's change capacity to become faster and more efficient: 'We now need to support the overall organization in their change processes. Otherwise it takes too long, particularly in the regions'.

The organization realized that necessary, frequent organizational changes could not be accomplished by individual skill development. Experiences from an already-existing small in-house consulting team in one division revealed that in-house consulting led to more professionally coordinated change processes. Thus, a corporate SIHC was created, describing its self-understanding with the following mission statement:

We design, support and strategically govern relevant change processes in all phases. We support you in the development and implementing of your strategy. We support change processes by taking into account the integration of strategy organizational design, organizational processes and leadership. We plan this change together with you, mindful of the temporal, content and social dimensions of change. (source: internal document)

The SIHC group described its work goals and methods as follows:

On the basis of initial clarification of expectations, we develop together with you – as for the customer – a tailor-made concept: consultation on the decision levels, development of the content in suitable formats (e. g. workshop, large group conference, coaching) and planning of change process communication. We take responsibility for an optimal implementation phase design, as well as operating in different phases as a sparring partner, adviser, facilitator and coach. (source: internal document)

Typical SIHC projects include implementing organization-wide (management) processes, supporting reorganizations, or consulting management teams in strategy development. The recruitment of consultants for the team reflected different disciplines (psychology, sociology, business management, educational theory, and physics) and is supplemented by a strong on-going investment in professional training for the consultants.

In conducting this PDR, we were guided by the way the consulting approach added to the change capacity. To best explain the contextually embedded SIHC consulting practices that are repeatedly mobilized in practice, we illustrate them with a concrete case study showing how these in-house consulting practices contribute to building change capacity.

Findings: SIHC working on a new organizational design

This section presents and discusses the findings of a consulting project with a large development department in a ZF business unit. The department had been growing rapidly for several years and was facing considerable challenges: increasing cost pressure and constant demands for shortening development time. Moreover, the function itself was experiencing challenges through the internationalization of its own organization. As more projects and a higher workload led to a substantial increase in the number of employees, the department asked the SIHC group to help it develop and implement a new organizational design (mission, goals, structure, processes, and competence).

Following the clarification of top management expectations, both an initial interview phase and intensive interaction with the management team revealed the different perspectives within that team. However, the team agreed on the SIHC group's suggestion for developing the new organizational design. This suggested procedure reflected SIHC logic and took into account the self-referentiality of the client organization and the consequent barriers to communications. Using the 'blue circle' process for entering the logic of the client system in a structured way, the consultants thoroughly clarified the management team's expectations. This practice enabled the SIHC consultants to better understand the logic of the development department, with its focus on quality and innovation.

To increase its understanding of the development department's specific logic, the SIHC consultants applied the internal case clinic, which enables consultants to collectively reflect on consulting projects. One concrete outcome of the information network is what the SIHC group calls the 'prototype development and knowledge library'. As consulting projects often generate new prototypes for consulting interventions, the learning and reflections become a wealth of experiences for upcoming change processes.

During the internal case clinic on the development department case, the consultants developed an approach that allowed the management team to develop their own solutions for a new organizational design. Thus, rather than presenting a new design, the SIHC consultants focused on stimulating the management team to construct their own solution. The approach stimulated the personal responsibility of the managers and integrated a substantial number of leadership teams (e.g. the board of directors and the business unit management, who were the development department's customers). The process stages for developing the new design constituted an initial diagnostic step, including the involvement of multiple stakeholders, the development of design criteria and various design options, the choice of one of the options, and the planning of the implementation (Figure 2).

The meetings and workshops with the multiple stakeholders were accompanied by continuing case clinics and other SIHC-internal meetings, all of which were critical for developing change capacity. These intra-consulting group meetings allowed the consultants to step back from their projects and become aware of the development departments' particular way of meaning-making.

A central element in the consulting project of the development department included confronting management teams with the different perspectives of relevant stakeholders. The consultants therefore aimed at widening the internal perspective of the development department's management team to create a shared picture of the situation and reduce the team's blind spots. Thus, for the development department, the SIHC consultants applied two common consulting practices:

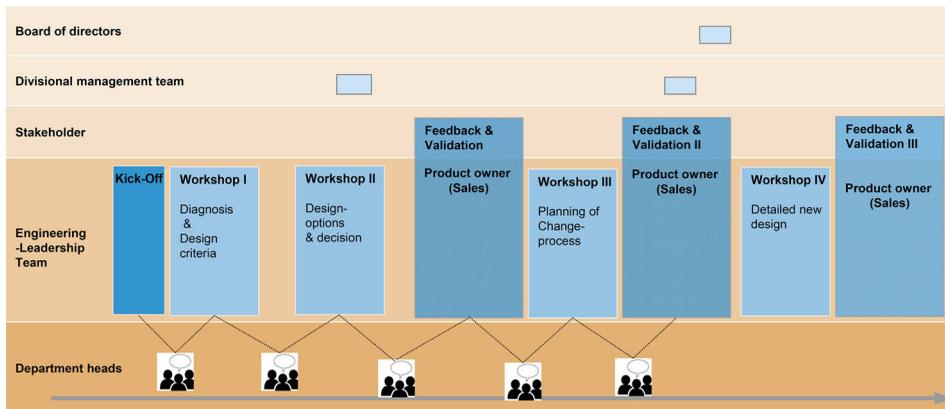


Figure 2. Organizational design development process.

First, in workshops with market-related departments (e.g. sales), SIHC consultants enabled the development department's management team to receive feedback on the organizational design. Within these workshops, this management team presented the objectives of their design plan to the sales department, the engineering department and two other departments, and asked for direct feedback. This process revealed emotional conflicts and resistance: whilst the development department was focused on technology and product design, with special attention to quality and innovation (the department's specialty), the market-related departments and top management were focused on time and cost issues.

The SIHC consultants were convinced that avoiding conflict at this point (by delegation) would lead to later conflicts and a more time-consuming process at the next level for all departments involved. Thus, the consultants developed different perspectives *with* management, allowing underlying needs to surface and revealing shared interests. Both the feedback on different perceptions (and the blind spots that were consequently discovered) enabled management to critically reflect on and change their own communication and decision practices.

Moreover, the SIHC consultants realized that the development department's top management had developed a biased picture by assuming that the management team's decisions had already been acted upon. That team also appeared to underestimate the amount of communication necessary for implementing decisions at the next hierarchical levels. Therefore, the consultants introduced a second common SIHC consulting practice – the 'inner/outer circle' – into the management system. They invited a group of middle managers from the development department to a workshop in which they used the inner/outer circle format. They asked the middle managers to comment on the design that the top management team had developed and to describe the effects of the changes at the next level. In a process facilitated by two SIHC consultants, the middle managers discussed their views in the 'inside circle', whilst top management listened in the 'outside circle'. Thus, top management experienced the second-order observations of the next-level first-order observations of the newly proposed organizational design.

The top management team's reflections revealed the different observations between top and middle management, and led to a much more comprehensive picture of the situation. Rather than evaluating top management's observation themselves, the SIHC consultants gave top management access to a second-order observation, thereby enabling them to anticipate the organizational effects of a top manager's decisions. The inner/outer circle intervention yielded important insights for the top management team. For example in certain parts of the organization, the new design would trigger change; in others, top management's deciding to accept the new design would lead to incongruencies between top management ideas and organizational reality. Thus, the intervention made transparent the possible effects of top management's decisions for a particular design. The inner/outer circle made clear to them that the decision would partly lead to later decisions and implementation at the next level, causing their initial decision ex-post to become a final decision. However, the intervention also revealed where top management decisions were unlikely to be followed by subsequent next-level decisions, revealing important levers for improving the change process.

During the entire consulting process, a contact system of managers from both the development department and the consulting group constantly planned and designed the upcoming workshops, conducted the workshops, and evaluated the ongoing steps. Moreover, they reflected on the effects of the change process contributing to the organization's change capacity.

The consulting process ultimately created an organizational design that incorporated a strong focus on costs and competitiveness whilst retaining the existing orientation towards quality and innovation. The CEO approved both the development process and the final organizational design. Moreover, the other involved departments (e.g. engineering) not only agreed with the changes and appreciated being involved in the process, but also started to systematically change their own organizational structures and processes in response to the new design. Indeed, the management team in one of those departments invited the SIHC consultants to support its later change process, a response signalling appreciation for the SIHC group's contribution to change capacity.

The next section links our findings to the literature and discusses their implications for developing organizational change capacity.

Discussion

Organizational change occurs in multiple contexts (Meyer & Stensaker, 2006) and in various forms, such as continuous, discontinuous, and planned or emergent (Todnem By, 2005). Unfortunately, organizations today often deal with change in separate individual change projects, thereby preventing them from seeing the need for developing a system-wide change capacity.

Recent research argues for focusing on change not as an isolated event but as including the effects of a particular change project on both other change processes and daily operations (Meyer & Stensaker, 2006; Pettigrew & Whipp, 1993). Whilst change capacity is one possible answer to this challenge, few empirical studies suggest what organizations can precisely do to develop change capacity. Although other ways of developing a change capacity may exist, the SIHC phenomenon is one institutionalized way of enhancing

organizational change capacity. In this study, driven by our desire to understand the phenomenon of SIHC in practice, the following five factors (summarized in [Table 1](#)) show SIHC as a way of enhancing organizational capacity.

First, system-theoretical assumptions depicting organizations as self-referential communications systems suggest the existence of communication barriers between clients and consultancies (Kieser, 2002). To exploit SIHC’s potential for overcoming these barriers and foster change capacity, SIHC practitioners apply various cooperation formats (e.g. blue circle) and internal processes (e.g. case clinic) to coordinate with the self-referential logic of the client organization. They organize regular meetings to reflect on and exchange ideas about both individual projects and the entire organization. The exchange helps the consultants to identify organization-wide topics or patterns, the recognition of which is essential for developing change capacity. Neither the line managers in charge of separate change projects nor external consultants would be able to apply these SIHC practices, all of which foster reflection and knowledge exchange and build organizational change capacity.

The in-house consultants’ exposure to various change projects in the organization, combined with their mutual exchange in specific reflection and reflexive formats, fosters the consultants’ comprehensive understanding of the on-going consulting projects (Scott & Barnes, 2011). Whilst visual aids such as change maps display this comprehensive view, their creation is possible only as a result of collective reflection by the in-house consultants. Moreover, formats such as the case clinics, which are similar to action learning sets (Revans, 2011), are helpful for both improving the consulting practice within a project and eliciting a system-wide perspective. Learning from experiences of parallel changes thus contributes to developing organizational change capacity beyond individual change projects and the experience of external consultants.

Table 1. Relevant system theoretical concepts, implications and SIHC practices.

System-theoretical concept	Implications for consulting practice	SIHC practices and routines
Self-referentiality	Communication barriers between clients and consultancies (Kieser, 2002)	Blue circle process clarifies client’s expectations. Case clinic enables consultants to understand customer system and develop consultant intervention. Change map displays and relates different change projects.
Meaning-making	The client system constructs its own meaning (Mohe & Seidl, 2009).	Consultants provide support so that clients can diagnose their problems and develop solutions themselves.
Distinction-making	Every observation implies a distinction and a blind spot (Spencer Brown, 1967). Second-order observation brings out the distinction and the blind spot (von Foerster, 1981).	Inner/outer circle interventions enable observation of the underlying distinction of an observation of other groups/stakeholders. Feedback processes allow clients to identify more than currently applied distinctions, e.g. quality vs. cost focus.
Structural coupling	Client organization and consulting organization can be structurally coupled by a contact system (Mohe & Seidl, 2009).	Regular meetings and feedback allow SIHC consultants to set up and maintain a contact system between the client organization and themselves.
Organization as decision machine	Decision paradox: a decision only becomes a decision if it is followed by a decision (Luhmann, 2000).	Early involvement of the middle managers (double circle) fosters their likely realization of the subsequent decision.

Second, systems theory suggests that meaning-making differs between consultants and clients, thereby making direct knowledge transfer into the client system impossible. Therefore, SIHC consulting practices support the clients in learning to diagnose their problems and develop their own solutions. In contrast to the traditional 'expert model' of consulting, whereby the consultant analyses the client's problem and generates a solution for him or her, SIHC follows the 'process consultation model' (Kieser & Wellstein, 2007; Schein, 1999). SIHC practices incorporate, for example, solution-focused consulting approaches (Jackson & McKergow, 2002), that is, approaches focused on the active involvement and permanent stimulation of the client's resources. Thus, the development of the solution not only helps take into account the client's knowledge, but also stimulates the client organization's change capacities.

Third, in terms of systems theory, consulting can be understood as a second-order observation, with observing defined as an operation of (i) making distinctions (e.g. between quality and profitability) and (ii) marking one side of this distinction (Luhmann, 1995). SIHC explores both how an organization such as the ZF development department observes and what distinctions (e.g. quality vs. profitability) it uses. With the organizational observing as a first-order observation, consulting constitutes a second-order observation, because it observes the first-order observations and exposes their underlying distinctions. The concept of observing implies that observations are partially blind because the observation itself is blind to the distinction that it employs in the moment. In other words, '[a] system can only observe what it observes. It cannot observe what it does not observe. Furthermore, it cannot observe that it does not observe what it does not observe' (Tuckermann & Rüegg-Stürm, 2010).

Practices such as the inner/outer circle or direct feedback from the consultants enable organization members to learn beyond their currently deployed observation, thereby fostering a comprehensive perspective and an organizational change capacity. SIHC practices such as the inner/outer circle are reflexive methods that allow these second-order observations to bring taken-for-granted assumptions to light. In other words, these practices allow a second-order observer to see the underlying distinctions that both form the basis for the taken-for-granted assumptions and constitute the blind spots of a first-order observation (Luhmann, 1993a; Schreyögg & Kliesch-Eberl, 2007).

Fourth, from a system-theoretical perspective the client organization and the consulting group have different idiosyncratic logics. Thus, consulting requires their structural coupling. One way of enabling the structural coupling is via a third system, Luhmann's 'contact system' (Luhmann, 2005, p. 360), which 'regulates' the contact between the first two. In SIHC projects, the consultants and the client organization members meet regularly in a series of workshops, preparation and review meetings, and informal meetings. Although this practice is similar in principle to that of external consultants, the long-term relationship, the congruence with the client's culture, and the possibility of using both formal and informal structures differentiates the internal consultants' contact system from that of external consultants (Scott & Barnes, 2011). Importantly, from a systems-theoretical perspective the communications in the contact system belong to neither the SIHC nor the client organization but lie between the two (Czarniawska & Mazza, 2003, p. 6). Thus, consulting takes place not within the client organization itself but exclusively within the contact system (Mohe & Seidl, 2009).

Fifth, by applying a systemic lens, SIHC interprets organizations as ‘decision machines’ (Nassehi, 2005) with decision communications as their basic elements (Luhmann, 2000; Schoeneborn, 2011). This network of decision communications leads to a decision paradox: a decision becomes a decision only if it serves as a presupposition for further decisions. A decision that does not do so remains ‘noise’, with no further consequences. For SIHC, therefore, decisions require the anticipation of the next decision to be made. From this perspective, middle managers’ SIHC-initiated involvement essentially constitutes a means of increasing the likelihood of a successful decision process continuation. Consultants’ consideration of middle management input in the early phase of the decision process helps to connect later decisions to the earlier one that is the SIHC involvement of some middle managers in the decision process helps connect decisions. Not surprisingly, this type of contribution to organization change capacity requires an internal know-how that external consultants rarely possess.

Conclusion

Drawing on a single-case study, this article has shown how in-house consulting can go beyond consulting individual projects to develop organization-wide change capacity. It argued that SIHC consultants differ from external consultants and change agents in both practices and outcomes, particularly for organizations that are confronted with multiple change contexts. Various practices such as case clinics, information networks and specific ways of cooperating with the client enable in-house consultants not only to provide a different form of consulting but also to develop an organization-wide understanding of the organization’s change patterns.

Researchers agree that developing a capacity for managing change has become a strategic imperative for organizations. As research on how to build an organizational capacity for change is relatively recent, this article makes an important contribution to the literature on change management. Supporting Mohe and Pfriem, who ask ‘whether internal consulting services have not already overcome the status of company-internal support function and come to be understood as an organizational capability’ (Mohe & Pfriem, 2001, p. 305, own translation), this article has shown that SIHC as a knowledge-based accomplishment constitutes part of an organizational change capacity. Thus, our research elaborates on – theoretically and practically – ‘how organizations actually work to increase their change capacity’ (Meyer & Stensaker, 2006, p. 229) by showing one possible avenue that organizations take to build or institutionalize this capacity.

Further research is necessary for overcoming the limitations of this single-case study and building a more comprehensive understanding of what developing in-house consulting as a change capacity fully entails. Additional research should therefore explore other in-house consulting approaches, identify how individual in-house consulting practices stimulate change capacity, and reveal all the requirements for establishing and developing further change capacity.

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No potential conflict of interest was reported by the authors.

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