

Resistance to Digital Transformation: The role of middle Management Personal Networks

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Abstract: This paper studies the digital transformation process of one of Russia's largest freight forwarding companies that was met with resistance from its middle management which put the entire change process in jeopardy. With the move to a digital platform business, the middle management had to follow enterprise-wide rules imposed by the underlying information system. Preferred treatment of hauliers as established by regional managers were no longer possible and it was this loss of autonomy that stood at the core of resistance among the firm's middle management. The practice of such extra organizational networks is described in Russian by the term 'blat'. The blat originated during the Soviet Union and described a system of personal favors that ensured the functioning of society in times of scarcity. The paper describes eight instances of middle managers' resistance who resisted the organisational change. Data was collected through interviews and document studies. We describe the circumstances that triggered resistance behaviour of each middle manager through their own words, the viewpoint of project managers and the company's top management. Our findings describe how individual resistance was overcome and – in many instances – converted into support for the change agenda. The original value of our paper is that the company overcame the resistance and successfully implemented its change agenda and entered a period of economic growth. Although the change process had to overcome many obstacles, the result proved economically very successful. Today, the company is one of the top transportation firms in Russia.

Keywords: digital platforms; blat; readiness for organizational change; employee resistance; innovation

1. Introduction

The term 'business model' describes how a firm creates value for its customers and how these activities are monetised (e.g., Casadesus-Masanell & Ricart, 2007). The economic impact of a new technology is a function of how successfully industry actors can convert it into business models (Breschi et al., 2000). The emergence of the internet age provided quick access to data and new monetisation mechanisms and yet again changed the business models of entire industries, such as the music industry. These developments enabled the emergence of digital platforms, originally designed as efficient mechanisms for procurement (Giaglis, Klein & O'Keefe, 2002) with much greater disruptive power than efficiency-based B2B transactions (Parker et al., 2016).

Business models in general and digital platforms in particular have been described as a complex activity involving various actors (e. g. Kolloch & Dellermann, 2018). The concept of business model transition has been under-researched, especially in the light of emerging digital platforms, where outstanding success stories, such as AirBnB and Uber (Parker, G. G., Van Alstyne, M. W., & Choudary, S. P. (2016). Platform revolution: How networked markets are transforming the economy and how to make them work for you. WW Norton & Company.; Evans & Gawer, 2016), incentivised firms to abandon their established way of business and transform into platforms. Change processes of such a nature have previously been identified as a major reason for resistance to change by a firm's staff (e. g. Rafferty et al., 2013). While the literature on the management and marketing, etc. of platform businesses has grown substantially in recent times, how to actually convert an organisation into a platform business is a subject that still awaits a detailed analysis.

Change in the business logic of a firm is probably the deepest change possible, as all established principles, procedures and skillsets are at risk. Not every organisation though is ready to engage in such deep-rooted change. The readiness for change is intimately connected to leadership which has been defined as central to capturing the value of digitalisation through connecting and engaging with employees (World Economic Forum, 2018). Research has also shed light on the ever-increasing roles and requirements of leadership to facilitate and enable digital change in the execution of the change agenda. This is a challenge for top management which needs to set the frame of change, define its means and objectives and, due to this prominent role, receive the lion share of attention.

However, for most employees, it is their line manager, and not the company's CEO, who represents the firm and sets top management directives into daily orders (Teulier & Rouleau, 2013). Middle managers conveyed and constantly readjusted the shared vision of the organisational change and reframed the technology to have a more inclusive approach: middle management act as key change agents. Despite their vital role, we are not aware of studies that shed light on cases in which middle management fall short of their expected roles due to their own resistance to change.

2. Middle Management: Blat

Middle management in a firm might be bound by personal ties between their peers and connected external actors – their blat. The term blat refers to an informal interpersonal connection between people who expect reciprocal benefits and special consideration (Michailova and Worm; 2003). It describes dyadic relationships to help friends or relatives, which were indispensable during the Soviet Union time, when goods were in short supply, and direct access to them in informal relationships. Hence, having a job that provides access to a commodity could be traded against other benefits. Money as such was much less in demand than in the Western countries, since goods were limited. In a way, blat was a substitute for market mechanisms of exchange based on social status and the ability to help other people (Ledeneva, 2009; Onoshchenko & Williams, 2013). Thereby, the blat system ensured the functioning of the larger societal connections through social ties (Ledeneva, 2009) and helped to overcome the inefficiencies of the command economy. A person who got a job in an organization through blat was associated with their patron. Thus, blat facilitates a network based on strong ties (Granovetter, 1973).

As shown by empirical research, most Russian managers use their blats to get the job they desire (Clarke, 2002). Still, some argue that the blat system has reorganized under the same principles, now to maximize personal profits (Smith and Stenning, 2006). Since the new form of blat is more money-related and aimed at enriching the members of its network (Smith and Stenning, 2006), it becomes much less socially acceptable and receives a negative connotation (Michailova and Worm; 2003). Today, blats are mentioned in connection with corruption or nepotism (e.g. Ledeneva, 2009). Hence, an organizational culture of “blat” builds on negative “power over” to stop organizational development instead of positive “power to” actively instigate change (Balabanova, 2021).

3. Methodology

We understand organisations to be socially constructed networks of social actors that are created and re-created through interaction. Consequently, change is a sequence of events initiated by individual actors. Also, change is dependent on the situational circumstances and needs to be studied against this background.

In order to understand the situation, we spoke to the CEO of the company and the head of the project management team. After we had familiarised ourselves with the current situation, the project management team gave us access to their written notes that had been collected throughout their team meetings and during meetings with middle management teams. The close association with the leader of the project management team allowed us to benefit from the rich and deep ‘local knowledge’ which served as a first layer of triangulation.

Based on these data we proceeded, applying purposeful sampling (Gilmore & Gilson, 2007), to selecting a total of eight middle managers that resisted change. We captured the social dynamics in the firm at the time of change, and how the resistance was overcome. We spoke to at least two individuals with intimate knowledge of the subject matter to bring the given statements into perspective. Some of our interview partners gave information on more than one case. In total we spoke with twelve members of the organisation.

The first author conducted the interviews with the chosen organisational members. They were asked specifically regarding their view of the change process and how they interpreted the stark resistance that the company experienced. These in-depth interviews followed a guideline and lasted about 45 minutes on average, the shortest taking 32 minutes and the longest one hour. The interview partners were chosen based on their positions and their insights into the events. Table 1 lists the employees we interviewed. The interviews were framed around the events of the change process and how the interviewees perceived these changes. We asked about implementations of the changes, the presence of intra-group structured antagonism and resistance behaviour.

Table 1: Interviews

Position	Work experience within the company
Road Transport Specialist – 3 pers.	13 years, 8 years, 3 years
Senior Road Transport Specialist – 2 pers.	10 years, 12 years
Transport Manager	5 years
Head of Logistics Department – 3 pers.	13 years, 7 years, 6 years
Regional Manager – 2 pers.	12 years, 8 years
CEO	12 years

4. Findings

At one of the first meetings, the case of the head of the logistic department in the central region (case 1) came to the attention of the project management team. The performance of the department was above the company's average, and the manager was in good standing with the company's top management. She was building trusting relationships both with representatives of clients and with representatives of hauliers, which allowed her, within the framework of the old system, to use these relationships, both in the interests of the company, as well as for her personal interests. Often, these interests coincided, that is, she could agree with clients to receive orders outside the standard distribution schemes. She supported the change process and shared top management's view on the potential efficiency gains. Though she favoured a rather cautious policy of small steps as she was worried about the department's overall rating in the company. "Change is good, but in small steps", she frequently said during our interview. The process was rolled out though not at all done in a manner she had favoured. As a consequence, the performance of her unit was lowered, and the manager started to initiate and orchestrate resistance among her team members as she felt responsible for them. This quickly resulted in a generally negative attitude towards the change project throughout her entire department. The lady - who spoke with a loud and authoritative voice - worked in an open plan office, which made sure that every team member could hear her opinion. Additionally, she would use the company email system to spread her opinion. The negative attitude towards change travelled quickly into other regional divisions to which she had personal ties.

Top management took notice of the resistance though decided against any action, especially as the manager never scaled her actions up or adopted active resistance. In the eyes of the top management, she never really imposed a threat to the change process towards the new strategy. In her team though she held a lead position, and when she voiced her dissatisfaction, her colleagues showed her loyalty and adopted her mindset. Due to her experience and standing within the company, a lot of time and training was directed to discuss with her and to convince her that after all, she and her team will master the new system. As time progressed, the overall rating of the unit increased even above the previous rating. Once the success of the project became clearer and insecurity vanished, she used her influence to align her team back with the company's strategic vision and she became a central advocator for the firms' change process.

Another manager from the central region with vast experience in the industry was supportive of the upcoming changes to stay competitive (case 2). Within his division, the majority of work procedures in place were developed by him as he led this division from the very moment of its foundation. The manager welcomed the push towards a digital platform, but only as long as they didn't interfere with his established principles of work.

The manager went a long way to ensure that everyone perceived him as a change agent, while in fact trying to roll out his work procedures throughout the entire company. These procedures though contradicted some of the imposed changes as intended by top management, which frequently led to heated debates in meetings. When his team members proposed to rearrange the workflow in line with top managements' orders, he resisted the change and insisted on his established procedures. The division's performance though remained on a fairly high level (albeit the growth rate was lower than the company's average), and top management let him prevail. "He will have to follow the rules of the new information system anyway", the project management team noted on a meeting note. Not all activities were digitalized at the same time though but rather were transferred to the

new system step by step. Especially those processes that required action from the firms' partners were scheduled for a later stage. Hence, the communication processes between hauliers and managers were still done telephonically. In a second stage though, the hauliers' communication was captured electronically, and the information system-imposed selection criteria for hauliers was made mandatory. The manager, after approving the "non-priority haulier" (giving contracts to hauliers against the according to the logics of the IS), was obliged to provide the prioritized haulier with another order within two days. He still circumvented the system and ensured that hauliers that were part of his network could still continue to do telephone conferences with the unit's head. The project management team flagged this fact as a major weakness and recorded numerous attempts of the manager to negotiate preferred conditions for a number of hauliers over the telephone line. When confronted, the manager blamed the bad IT knowledge of the haulier. The manager was able to span networks and bring in experiences from other organizations with the company's hauliers in his region. He saw these connections as his major asset – which he said would benefit the firm. His attempts to fence off the control through the IS could no longer be ignored, and the manager was asked to explain why he diverted from the company's processes. His true intentions to reestablish his way of doing business was revealed and trust in him vanished.

These cases describe well-performing units led by managers with very high standing. Though, also in remote regions, far away from the company's headquarters, managers saw the opportunity that the proposed changes offered. A manager in a region in the far east (case 3) felt incapable to qualitatively develop his branch, since his region is the region of the "last mile"¹. Competition for the few reliable hauliers is very high, and incoming traffic is much lower than in the central regions. The new system though allowed hauliers who have capacities on incoming travels to offer this opportunity through the company's platform. After the organizational change, the number of transports increased significantly. The division was unprepared to act accordingly and to make use of this opportunity as the operational organization proved suboptimal. The manager acted from a peripheral position in the network and understood that this new opportunity would open up ways to improve his position in the social space and embraced the upcoming changes.

Other managers indeed improved their position based on the organizational change (case 4). A manager with great standing in her unit - all inter-department activities were established by her - and established a set of work principles that most other departments adopted – competed in a region with a very strong competitor. This kept the development of her division down, as the majority of the customers and hauliers worked with the company's competitor. Under the established business model, it was not possible to change the situation for the better, and hence she became an active supporter of the digital platform. She believed the new system would break the blat between the clients and the company's main competitor in the region by offering clients much more favourable conditions through greater choice of hauliers and more competitive pricing.

Moreover, she supported the implementation of a new system in her branch and arranged training for her team. Thanks to her activity, the implementation of changes in the branch was made easy and the branch received a new impetus for development. The division's position in the region's market has subsequently strengthened. The division's elevated performance was well perceived by top management and the neighbouring region's branch was added to the regional managers' portfolio (head of the division where she was a head of logistics Department). The previous head of the neighbouring branch who has resisted the change has left the company.

During the meetings to discuss the worsening of units after the change process, a department manager stood out who showed a high degree of resistance (case 5). She was an informal leader and was highly influential as an opinion maker throughout the entire company. She was opposing the change plans right from the start, but her opposition became fierce when her unit showed a really bad performance under the new regime. The manager invested a lot of time and energy to find various ways to circumvent the procedures of the information system, and she proudly shared her success stories among members of various regions. In fact, more and more employees started to follow her suggestions. The new platform limited her freedom to maintain her blat with the hauliers who demanded higher prices for the services they provided in exchange for their loyalty.

¹ "a term used in supply chain management and transportation planning to describe the movement of people and goods from a transportation hub to a final destination" Wikipedia - [https://en.wikipedia.org/wiki/Last_mile_\(transportation\)](https://en.wikipedia.org/wiki/Last_mile_(transportation))

The change management team had to react, but it was unclear how to change her mind. Then, the IT department communicated that they closed these blind spots that she had revealed. In fact, the IT department was working alongside her multiple attempts and found it helpful to identify weaknesses of the system. The manager was subsequently promoted to search for weaknesses in the new electronic platform. She mentioned during the interview how important it was to see that the project management team and top management appreciated her work and took her comments seriously. Thereby, she changed her perception and became a central promoter for the new business model. This gave her credibility, especially as top management started to appreciate the skills that she developed. She subsequently received a promotion to an elaborated position.

The case of the head of a regional division in the south (case 6) could not be brought to a successful end. He was acting in a very competitive environment, and he had already informed top management that the position of his division in the regional transportation market was weakening.

This manager's special relationships were built primarily with hauliers in his region, but also, to a lesser extent, with representatives of major clients. As the platform was rolled out, clients' ability to maintain special relationships began to decline. In addition, the implementation of the system was accompanied by renegotiation of contracts with hauliers and checking them for the possibility to provide their service to the company.

He suggested a new pricing policy and lower entry requirements to contract in new hauliers. At the same time, when the process of implementing changes began, the branch's indicators actually began to decline. At the regular meetings to discuss the changes, the manager gave contradictory explanations for the lack of development of his division, often referring to the bad implementation strategy of top management, or the unwillingness of team members to use it, and the low motivation of employees in general. This raised red flags with the change management team. Over an extended period, the situation in the branch did not change for the better. The manager continued to blame the new IS, often with absurd requests like changing font size of the website. The project management team recommended that the CEO should replace the Head of this division, which he did eventually (although the CEO resisted this move for a long time as this manager was his protégé in the past). After replacing both the regional manager and the head of the logistics department, the new management more consciously joined the updated processes. Four months later (after the on-site training activities), the branch began to return to steady growth. A year later, the division performance only marginally lagged behind the leading region.

Another regional manager (case 7) was satisfied with the status quo as she had mastered the craft to optimize the performance indicators and was hence doing exceptionally well for herself. The regional manager grounded her success in the collaboration with "special treatment" hauliers. The introduction of a new information system was consequently a threat which she expressed at each meeting with her peer regional managers. The statements made though were abstract and not built on factual arguments. When the project management team asked to provide evidence for her claims, she refused to collaborate. In order to alleviate the situation, the manager received another branch. Stripped of her personal connections with hauliers and forced to deliver results, the manager adopted the rules of the new system.

However, not all resistance to change ended in such a manner. The division head did not see the need for any changes in the work of the branch, as under the old system she enjoyed a high standing as one of the most effective managers (case 8). The regional division was creating 75% of its revenue through one client, and thanks to this client, she was the highest paid head among the regional division. The introduced organizational change processes now changed this advantage, and the KPI system drastically reduced the manager's remuneration. Moreover, the transition to the digital platform and the change in the principles of work required this manager to develop relations with other clients of the region, which quickly revealed "bottlenecks" in the processes of her division. Realizing the importance of a key client for the company to which she had a very close connection, she frequently threatened to leave the company. As the top management didn't give in to her threats but actually approved her wish to leave, she decided to stay on.

Nevertheless, she made a lot of efforts to maintain the previous work procedures. Due to her personal relationship with the CEO and her well-established relationship with the priority client, it was decided to increase this division's own fleet of vehicles in the region in order to keep the client. This approach also succeeded in ceasing the manager's resistance. Her refusal to take the final step and to leave opened up new ways to discuss alternative options. And indeed, due to her connection to the main client – she could actually guarantee access

to economic capital. In choosing a more amicable approach, she convinced top management to follow her suggestion and to give special status to her department.

5. Discussion and conclusion

The push towards digitalisation and the conversion to a platform business rests on the streamlining of business processes as repetitive activities become automatised and information travels freely within an organisation. These developments change the roles and responsibilities of members of the organization and consequently might threaten an individual's role in an informal network. Due to the previously isolated ways of doing business by the company's units, most energy was diverted towards strengthening intergroup connections. For headquarters, however, the way business was done in the region was of little importance, as long as the financial results were satisfying. This gave a lot of space to emerging blats – from which the resistance the company was facing originated. As such, the presented case company is also an example of resistance against centralised control, as well as the streamlining of business processes by means of digital technologies.

Unlike the cases in 20th century industrial firms which were driven by workers against management, the resistance cases of the digitalisation age are likely to stem from middle management that fear losing their jobs and their role in the blat that their positions ensure due to the adoption and integration of new business technologies. Hence, the study field of resistance to digital transformation in companies is less a subject of technological applications and rather a matter of organisational development. As seen in the research, some managers defended their way of giving favorable contracts to hauliers of their networks. Others tried to defend their creative accounting practices to ensure that their team members would stay on top of the income level which ensured their standing in their blats.

On the other hand, our research also showed that many of the middle managers with whom we engaged acted out of a deeply rooted belief that the proposed actions might not be the right decision for the organisation. Such concerns have already been identified in previous research (e.g., Daniel, W. W., & Hogarth, T. (1990). Worker support for technical change. *New Technology, Work and Employment*, 5(2), 85-93.; Hauschildt, 1999; Jansen, K. J. (2000). *The emerging dynamics of change: Resistance, readiness, and momentum. People and Strategy*, 23(2), 53.; Dunican, B. (2015). *Acceptance of Change: Exploring the Relationship among Psychometric Constructs and Employee Resistance*. Bowling Green, KY: Western Kentucky University.). More training or mediation sessions can easily resolve the situation and reduce uncertainty. Such investments may quickly convert key personnel with high social standing among colleagues into change agents. As seen in our Case 5, the manager improved her skill set in order to prove how badly executed the change process was. The firm realised that this resistance was in fact a valuable resource, and promoted her to a position which expected her to find flaws in the change process, especially in the information system.

One option for the organisation is to focus on these actors who will find themselves on the winning side and actively support the change process. In Case 4, the manager came from a remote area, but quickly realised that the new organisational changes offered the economic setting which allowed him to expand the firm's activities. The person was indeed subsequently rewarded with a promotion and a different region to manage. Such persons, who actively drive and support the proposed changes, are of utmost importance as change agents in the early stages of change. Especially the resistance cases, as shown in Case 1, would require such agents who can convince them of the positive aspects. Nevertheless, research has shown that positions on the periphery of a social space do take up such opportunities quickly, even though they might not have the required abilities (Emirbayer, M., & Johnson, V. (2008). Bourdieu and organizational analysis. *Theory and society*, 37(1), 1-44.; Battilana, J., Leca, B., & Boxenbaum, E. (2009). 2 how actors change institutions: towards a theory of institutional entrepreneurship. *Academy of Management annals*, 3(1), 65-107.). As shown in Case 3, enthusiasm and a valid business case do not guarantee economic success. Often the sudden increase in business results in overwhelmed business structures and held up work-flows. Here, it would have been helpful to provide early stress-tests to the business units, especially as they had such a high degree of freedom as in the far-flung units of the organisation presented here. In other instances, as presented in our last case, it might be sensible for an organisation to allow deviations from the change process, especially if there is a good business case to support such a decision.

Most likely, transformation driven by technology will become the new constant (Aldrich, H., & Ruef, M. (2006). *Organizations evolving*. London: Sage.). It is, henceforth, of great importance to generate value not only derived from control over present processes, but also from mastery of change. How could a system of reward for

successful participation in such activities look like? The analysis of processes that create social standing for a firm's employees in transformation would offer a rich study field. Still, a focus on early signs of resistance might confuse resistance behaviour with actual meaningful critique of a digitalisation strategy. Hence, it is vital to establish communication lines to ensure that critique can be voiced and is appreciated. In order to reduce the likelihood of resistance on a company level, it should be a priority to communicate the benefits – not only to the firm's profit and loss statement, but also to the employees. Such statements on how all stakeholders benefit should be made a mandatory part of the firm's digitalisation strategy.

This paper describes the resistance behaviour evoked by the transformation towards a platform business model of a transport company. Although the change process had to overcome many obstacles, the result proved economically very successful. This highlights the discussed organisation's efficacy in introducing change and renders it well suited as a model/a source of valuable suggestions for other organisations. Furthermore, the paper goes against the general trend in the literature which looks into firms that are mired in resistance or have failed in their change process.

The paper presented eight cases of resistance and showed how the company responded to them. In most cases, the resistance was overcome - even converted into positive results. The analytical view taken of the presented cases of resistance shows how they are all uniquely interwoven with the events that accompanied the change process. However, the research into resistance to digital transformation has started only very recently, and there is much to learn for organisational psychology. In this paper we outlined some questions which we find of relevance and invite scholars to contribute their understanding of the underlying processes. For future research, we propose to level up the study of personal networks and to look into Bourdieu's (1977) concept of *capital* – especially *social capital* – as a potentially helpful underlying framework that does lend generalisability to the different cases. Bourdieu's concept of social capital is an indicator of personal and professional experience or skill sets acquired in an individual's past professional and personal life worlds.

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