

Beyond Chaos:

A Dynamic Driver Replacement Theory of Growth and Covenant Governance

From Dividends to Covenant Governance

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ABSTRACT

Why do some high-growth firms thrive amid apparent chaos while others implode under similar conditions? We address this paradox by developing Dynamic Driver Replacement Theory (DDRT), a life-cycle framework that explains how the relative importance of external dividends and internal governance shifts over time. DDRT integrates four streams—organizational life-cycle theory, high-growth firm research, complexity theory, and work on management practices—into a unified mechanism. We formalize the Dividend Offset Mechanism, showing how strong product–marketing dividends (PMD) buffer the negative effects of internal friction on Enterprise Growth Velocity in early stages, and why this buffering fails as firms mature. We distinguish structural friction (coordination failures, process gaps) from relational friction (trust erosion, identity disengagement), theorizing that PMD can more readily offset the former than the latter, which accumulates as latent management debt. We identify a Driver Replacement Inflection Point where the strategic contribution of governance quality overtakes that of PMD, and we specify early-warning indicators of this transition, including when the marginal cost of talent acquisition exceeds the marginal revenue from innovation rents. We then introduce Micro-Covenants—minimal relational commitments planted during high-growth phases that create path dependence in the relational domain—and Covenant Governance as the governance archetype best suited to the post-dividend stage. Finally, we theorize artificial intelligence as a friction catalyst: by compressing structural friction, AI accelerates firms’ arrival at the Driver Replacement Inflection Point and makes relational friction more salient. Together, these arguments yield ten propositions, boundary conditions (including sectoral velocity), and a construct-to-measurement map that leverages AI-enabled text analysis of employee reviews.

DDRT thus re-specifies when chaos is vital and when it is deadly and recasts covenant governance as a strategic—not merely ethical—response to the exhaustion of external dividends.

Keywords: organizational life cycle, high-growth firms, complexity theory, management practices, organizational governance, trust, crisis resilience, artificial intelligence, relational contracts, covenant governance

INTRODUCTION

Consider a paradox that existing strategic organization theories cannot adequately resolve. A high-growth technology firm operates in apparent managerial chaos: turnover exceeds 30 percent, formal structures are improvised, role boundaries blur daily, and middle management is nearly absent. Yet the firm grows at four times its industry average, attracts top engineering talent, and outperforms established competitors on every financial metric. Fifteen years later, the same patterns of chaos—high turnover, ad hoc structures, blurred accountability—persist, but the firm is now hemorrhaging talent, losing market position, and approaching insolvency. What changed? The observable “chaos” looks identical on the surface. The outcomes are diametrically opposed.

This paradox is not hypothetical. It describes a pattern observable across industries and geographies, from aggressive technology startups to manufacturing firms that once dominated their sectors. High-growth firm (HGF) research has documented the phenomenon empirically: firms growing at extraordinary rates often exhibit managerial practices that conventional organization theory would predict should be fatal (Coad, Daunfeldt, Hölzl, Johansson, and Nightingale, 2014; Demir, Wennberg, and McKelvie, 2017). Yet existing frameworks cannot explain the temporal dimension—why the same operational characteristics that accompany explosive growth in one period produce collapse in another.

Four theoretical streams offer partial but incomplete answers. Organizational life cycle (OLC) theory describes stage transitions but not the dynamic mechanism through which the strategic importance of different capabilities shifts (Greiner, 1972; Habersang, Küberling, Reihlen, and Seckler, 2019)—stages without mechanisms. HGF research identifies growth drivers but typically examines them cross-sectionally, missing temporal dynamics (Coad et al.,

2014; Henrekson and Johansson, 2010)—drivers without dynamics. Complexity theory portrays organizations as systems moving between order, complexity, and chaos (Anderson, 1999; Stacey, 1995) but has not been integrated with life cycle thinking—domains without organizational specificity. Management practice research establishes that management quality predicts performance on average (Bloom and Van Reenen, 2007) but does not account for the possibility that this relationship is stage-dependent—averages without contingencies.

We develop Dynamic Driver Replacement Theory (DDRT) to integrate these four streams and resolve the chaos paradox. Before elaborating on the full framework, we summarize the conceptual toolkit that DDRT introduces:

Conceptual toolkit. DDRT is organized around six core constructs: (1) three developmental domains (α Jungle Explosion, β Scalable Fortification, γ Enduring Governance) defined by the configuration of external and internal competitive factors; (2) Product–Marketing Dividends (PMD), capturing the strength of externally derived competitive advantages; (3) Internal Friction, bifurcated into structural friction (coordination failures, process gaps) and relational friction (trust erosion, identity disengagement); (4) the Dividend Offset Mechanism, specifying how and when PMD attenuates friction’s negative effects on growth; (5) the Driver Replacement Inflection Point, the critical juncture where governance quality overtakes PMD as the primary performance driver, identifiable through four early-warning indicators; and (6) Covenant Governance (with Micro-Covenants as its early-stage precursor), the institutional form that builds a Credit Line of Trust enabling collective sacrifice during crises. A seventh construct—AI as a friction catalyst—extends the framework to AI-augmented environments by showing how AI compresses structural friction and thereby accelerates firms’ arrival at the inflection point.

DDRT makes four contributions to strategic organization scholarship:

First, we formalize the *Dividend Offset Mechanism* with a critical refinement: the offset operates asymmetrically across friction types. PMD attenuates *structural friction* more readily than *relational friction*, which accumulates silently as management debt—latent liabilities that materialize catastrophically when external dividends erode.

Second, we specify the *Driver Replacement Inflection Point* with measurable early-warning indicators—including the point at which the marginal cost of talent acquisition exceeds the marginal revenue from innovation rents—providing organizations with actionable diagnostics rather than retrospective labels.

Third, we introduce *Micro-Covenants* as minimal relational commitments that create path dependence in the relational domain during high-growth phases, and *Covenant Governance* as the institutional form that converts accumulated relational capital into crisis resilience. We also theorize *relational lockout*—the condition in which a sustained pattern of extraction and broken promises writes a negative relational history into the organization’s core code that no amount of late-stage financial investment can reverse.

Fourth, we theorize artificial intelligence as a *friction catalyst*: by compressing structural friction, AI strips away the “forgivable” forms of dysfunction that dividends can buffer and exposes relational friction more starkly, effectively accelerating firms’ arrival at the Driver Replacement Inflection Point and making Covenant Governance an earlier and more urgent strategic investment.

For strategic organization scholarship, DDRT offers a unified mechanism that connects high-growth trajectories, internal governance quality, and long-term survival. It shows how the strategic importance of management practices and governance is not constant but dynamically

contingent on life-cycle stage and the strength of product–marketing dividends, thereby extending life cycle, high-growth, and management-practice literatures in a single framework.

The remainder of this article proceeds as follows. We first review the four theoretical streams and identify the gaps each leaves unresolved. We then develop the DDRT framework, specifying three developmental domains, the Dividend Offset Mechanism with its structural–relational distinction, the Driver Replacement Inflection Point with early-warning indicators, Micro-Covenants with path dependence and relational lockout, and Covenant Governance. We advance ten formal propositions, present figures and a construct-to-measurement mapping, discuss boundary conditions including capital intensity and sectoral velocity, and conclude with theoretical implications and a future research agenda.

THEORETICAL FOUNDATIONS

Organizational Life-Cycle Theory: Stages Without Mechanisms

Classic OLC models converge on a common insight: organizations evolve through qualitatively distinct stages, each defined by characteristic structural features, strategic priorities, and managerial challenges (Greiner, 1972; Miller and Friesen, 1984; Quinn and Cameron, 1983).

Hanks, Watson, Jansen, and Chandler (1993) synthesized multiple OLC models into a parsimonious framework distinguishing start-up, expansion, maturity, and diversification stages. More recent reviews argue that OLC stages can be understood through increasing organizational formalization and the tension between exploration and exploitation (Habersang et al., 2019), and design-oriented perspectives have begun to incorporate how organizational structures interact with external conditions across the life cycle (Neumann, Matt, Haskamp, and Franken, 2021).

These models share three limitations relevant to the chaos paradox. First, they describe structural transitions without specifying the dynamic mechanism through which the strategic importance of different capabilities shifts. Second, they assume developmental linearity, despite growing evidence of non-linear, path-dependent trajectories (Levie and Lichtenstein, 2010). Third, OLC models offer limited insight into governance, culture, and trust as determinants of long-term survival. Recent reviews explicitly call for renewed attention to how life-cycle stages shape organizational behavior through culture and governance (Habersang et al., 2019; Neumann et al., 2021).

High-Growth Firms: Drivers Without Dynamics

Systematic reviews identify key HGF growth drivers, including product innovation, human capital quality, strategic orientation, and organizational capabilities (Coad et al., 2014; Demir et al., 2017; Henrekson and Johansson, 2010). This research has established that high growth is typically episodic, and few firms maintain high-growth status across multiple periods. The critical gap for our purposes is temporal: HGF research typically examines drivers cross-sectionally, making it difficult to distinguish capabilities important during explosive growth from those decisive during subsequent stages. Recent large-scale evidence shows that high-growth firms differ from peers not only in marketing and strategy but also in talent development and culture (Hinge Research Institute, 2025), suggesting relational investments already play a role during growth phases—yet existing HGF theory does not specify when these shift from supportive to decisive.

Complexity Theory: Domains Without Organizational Specificity

Complexity theory portrays organizations as complex adaptive systems moving between domains of order, complexity, and chaos, each with distinct patterns of causality and controllability (Anderson, 1999; Stacey, 1995). Recent work translates these domains into distinct managerial roles: managing in ordered regimes, facilitating in complex regimes, and preparing in chaotic regimes (Snowden and Boone, 2007). Emerging contributions further conceptualize complexity as a domain between order and chaos with direct implications for management practice (Browning and Boudés, 2025), supporting the view that organizations operate across multiple regimes simultaneously and must adapt their governance approaches accordingly. This framework enriches understanding but has not been integrated with life cycle thinking to explain when turbulence is productive versus destructive—precisely the question DDRT addresses.

Management Practice Research: Averages Without Contingencies

The World Management Survey demonstrates that structured management practices significantly predict firm productivity and survival (Bloom and Van Reenen, 2007; Bloom, Sadun, and Van Reenen, 2012). This establishes an important baseline: management quality predicts performance on average. However, it does not examine whether this impact is contingent on external competitive advantages or life-cycle position. DDRT proposes that the relationship is fundamentally stage-dependent: in early, high-dividend environments, management quality's marginal contribution to growth is low; in mature, low-dividend environments, it becomes the decisive determinant of survival.

THE DYNAMIC DRIVER REPLACEMENT THEORY

Core Constructs

Enterprise Growth Velocity (EGV) captures the rate and trajectory of firm-level competitive performance, encompassing revenue growth, market position change, and valuation trajectory.

Product–Marketing Dividend (PMD) represents the aggregate strength of externally derived competitive advantages: product innovation rents, market position premium, brand equity, and first-mover advantages.

Internal Friction captures the aggregate cost of internal organizational dysfunction. We bifurcate this construct:

Structural Friction (IFIs) encompasses coordination failures, role ambiguity, management quality deficits, process gaps, and information breakdowns. Structural friction is relatively visible, measurable, and amenable to formal intervention. Critically, it is the component most readily offset by external dividends: strong product–market momentum generates resource slack and positive feedback loops that absorb coordination costs.

Relational Friction (IFIR) encompasses trust erosion, morale deterioration, psychological contract breach, identity disengagement, and the accumulation of perceived injustice. Relational friction is less visible, harder to measure, and resistant to formal intervention because it operates through affective and identity-based processes. Crucially, relational friction is not readily offset by external dividends: employees may feel devalued, distrusted, or exploited even when the firm is growing rapidly. This asymmetry is central to DDRT: high-growth firms can tolerate enormous structural friction because dividends buffer it, but relational friction accumulates silently as management debt—latent liabilities that materialize catastrophically when external dividends erode.

Governance Quality (GQ) captures the quality and character of an organization's governance system: the structures, cultures, relational contracts, and trust mechanisms through which the firm coordinates collective action. GQ ranges from extraction-based governance (transactional contracts, intensive monitoring, disposable employment relationships) to Covenant Governance (relational contracts, systematic dignity investment, identity-based organizational commitment).

The Structural–Relational Friction Distinction

The bifurcation of IFI generates substantively different predictions. Consider two firms in Domain α with identical overall IFI scores. Firm A has high structural friction but low relational friction: employees feel valued and identify with the mission despite operational chaos. Firm B has moderate structural friction but high relational friction: employees perceive leadership as extractive and view the employment relationship as purely transactional. DDRT predicts that Firm A's friction profile is sustainable under high PMD and provides a foundation for future Covenant Governance, while Firm B's profile—despite lower total IFI—is strategically more dangerous because relational friction compounds invisibly. When PMD erodes, Firm B will discover it lacks the relational capital to navigate the transition.

Three Developmental Domains

DDRT proposes that organizations traverse three developmental domains defined by the configuration of PMD, IFI, and GQ. We use “domains” rather than “stages” to emphasize that progression is neither linear nor irreversible.

Domain α : Jungle Explosion. Characterized by high PMD, high IFI (predominantly structural), and low-to-moderate GQ. The firm operates near the edge of chaos (Stacey, 1995),

with functional turbulence driven by rapid experimentation and talent churn. Speed dominates order. Growth-aligned turnover—where departing employees are replaced by higher-capability talent drawn by market momentum—is characteristic. The Dividend Offset absorbs structural friction. However, even in Domain α , relational friction accumulates silently if leadership treats employees as disposable inputs.

Domain β : Scalable Fortification. Characterized by moderate-to-declining PMD, moderate IFI, and increasing GQ. The firm begins formalizing structures and professionalizing management to replicate success. Structural friction declines as processes mature, but relational friction may surface as organizational culture—previously obscured by growth excitement—becomes visible. The Driver Replacement Inflection Point occurs within this domain.

Domain γ : Enduring Governance. Characterized by low-to-moderate PMD, ideally low IFI, and high GQ. External dividends have largely been competed away. Governance quality becomes the decisive determinant of survival. Firms that have built Covenant Governance possess a Credit Line of Trust enabling collective sacrifice during crises, producing a documented 45-fold Survival Premium in crisis costs compared to extraction-governed firms facing identical shocks (Author, 2025a).

The Dividend Offset Mechanism

The central mechanism of DDRT is the Dividend Offset: external dividends attenuate the negative impact of internal friction on growth. We formalize this with a critical refinement: the offset operates asymmetrically across friction types. Strong PMD generates resource slack absorbing structural friction costs; attracts talent inflows, converting destructive turnover into talent upgrading; and creates positive feedback loops masking structural dysfunction. These channels operate primarily on structural friction.

Relational friction, by contrast, resists dividend-based offsetting. Employees who feel exploited do not feel less exploited because the firm is growing. Psychological contract breach does not heal because stock prices are rising. This asymmetry produces a critical prediction: high-growth firms may appear healthy on structural and financial metrics while simultaneously accumulating fatal levels of relational friction that will materialize when dividends erode.

Figure 2 visualizes this logic. Panel A shows how identical levels of internal friction produce dramatically different growth outcomes under high versus low PMD conditions—generating vital chaos in the former and death chaos in the latter. Panel B illustrates the structural–relational asymmetry: under identical high-PMD conditions, structural friction (IFIs) is readily absorbed, while relational friction (IFIR) accumulates as latent management debt even when dividends are strong.

The Driver Replacement Inflection Point

The transition between Domain β and Domain γ is DDRT’s most strategically consequential juncture. We specify four leading indicators that signal the inflection point’s approach before the crisis materializes:

The Talent Acquisition Cost Signal. The marginal cost of acquiring equivalent talent exceeds the marginal revenue from innovation rents, measurable through recruiting cost-per-hire trends and offer-acceptance rates benchmarked against revenue growth deceleration.

The Turnover Character Shift. The ratio of growth-aligned to distress-driven turnover inverts, detectable through exit interview analysis, Glassdoor sentiment trends, and performance ratings of departing versus remaining employees.

The Innovation Rent Compression. Gross margin premium over industry average begins sustained decline, signaling product–market advantage erosion.

The Relational Friction Surfacing. Previously invisible relational friction becomes visible through declining engagement scores, increasing grievance filings, or public criticism of organizational culture—often occurring in Domain β precisely because growth excitement no longer obscures accumulated resentments.

Figure 1 visualizes this transition. The shaded vulnerability gap around the Driver Replacement Inflection Point marks the interval where PMD has fallen enough that it no longer fully offsets internal friction, yet GQ has not risen sufficiently to anchor performance. In this zone, small increases in relational friction or small delays in governance investment can trigger large drops in Enterprise Growth Velocity, making it the most dangerous stretch of the developmental trajectory.

Micro-Covenants: Bridging Speed and Dignity

A potential objection to DDRT is that Covenant Governance—with its emphasis on long-term reciprocity and dignified transitions—appears incompatible with the speed that characterizes Domain α . We resolve this through Micro-Covenants: minimal, targeted relational commitments that can be embedded during high-growth phases without impeding agility. Examples include dignified departures (treating departing employees with respect and transparency), crisis transparency (sharing setbacks openly rather than managing narratives), and selective long-term commitments (making visible development investments in a core group of employees who become “covenant carriers”—the nucleus around which broader relational structures form as the firm matures).

Micro-Covenants create path dependence in the relational domain. Once early-stage interactions establish a pattern of small but credible mutual commitments—leaders protecting employees in crises, honoring informal promises, sharing upside in non-zero-sum ways—later

attempts to deepen Covenant Governance build on an existing trajectory rather than starting from zero. Over time, these relational micro-investments compound into a Credit Line of Trust that can be drawn upon in Domain γ to support collective sacrifice and endurance.

Conversely, firms that deliberately withhold even minimal relational commitments in Domain α may face a *relational lockout* in Domain γ . A sustained pattern of extraction, broken promises, and one-sided risk transfer writes a negative relational history into the organization's core code. Once that history is in place, no amount of late-stage financial investment—higher salaries, bonuses, or perks—can fully buy back the trust that was squandered during the high-growth phase. Covenant Governance therefore cannot simply be “switched on” at the point of crisis; it must be planted as Micro-Covenants while dividends are still high.

AI as a Friction Catalyst

While much discussion of AI in organizations focuses on productivity gains and job displacement, DDRT suggests a more subtle paradox. By automating coordination, standardizing workflows, and reducing process errors, AI disproportionately attacks structural friction—precisely the dimension that product–marketing dividends can most easily buffer. In doing so, AI acts as a friction catalyst: it strips away the “forgivable” forms of friction that dividends can offset and leaves relational friction more exposed and more salient. As a result, firms may arrive at the Driver Replacement Inflection Point earlier than they would have in a pre-AI environment, because the residual drag on growth increasingly comes from trust erosion, identity disengagement, and moral fatigue rather than coordination problems.

On the relational side, AI introduces a new friction source. When organizations deploy AI to optimize for measurable outputs—what we term Performance UI (Author, 2025b)—employees may perceive a shift in their value to the organization. The message, explicit or

implicit, is clear: the value you provide is increasingly producible by machines. This perception erodes the sense of intrinsic worth that relational contracts depend on and accelerates identity disengagement. Organizations that respond to AI by intensifying extraction—measuring more, monitoring more, optimizing more—accelerate the relational friction that will destroy them when dividends erode. Organizations that respond with Covenant Governance—investing in human dignity, cultivating identity-based commitment—harness AI’s structural benefits while protecting against its relational costs.

PROPOSITIONS

The Dividend Offset and Friction Asymmetry

Proposition 1 (Dividend Offset). The negative effect of internal friction (IFI) on enterprise growth velocity (EGV) is moderated by product–marketing dividend (PMD) strength, such that the IFI–EGV relationship is weakly negative when PMD is high and strongly negative when PMD is low.

Proposition 2 (Friction asymmetry). The Dividend Offset operates asymmetrically: high PMD attenuates the negative effects of structural friction (IFIs) on EGV more substantially than it attenuates the effects of relational friction (IFIR), which accumulates as latent management debt regardless of PMD strength.

Proposition 3 (Turnover typology). In Domain α , high employee turnover is positively associated with firm growth when growth-aligned (departing employees replaced by higher-capability talent) but negatively associated with growth when distress-driven (high-capability employees departing to escape dysfunction).

The Driver Replacement Inflection Point

Proposition 4 (Inflection point). A critical inflection point exists at which governance quality (GQ) replaces PMD as the primary predictor of EGV. This inflection is signaled by the convergence of: (a) marginal talent acquisition cost exceeding marginal innovation rent revenue; (b) inversion of the growth-aligned to distress-driven turnover ratio; (c) sustained gross margin premium compression; and (d) surfacing of previously latent relational friction.

Proposition 5 (Transition timing). Firms that increase GQ before PMD declines below the Dividend Offset threshold sustain positive EGV through the transition; firms that fail to increase GQ before this threshold experience accelerating decline as unattenuated friction compounds PMD erosion.

The Nature of Chaos

Proposition 6 (Vital versus death chaos). Observationally similar levels of internal turbulence correspond to qualitatively different dynamics depending on developmental domain: vital chaos in Domain α (high PMD buffers structural friction, relational friction is low, growth-aligned turnover predominates) and death chaos in Domain γ (low PMD cannot buffer friction, relational friction has accumulated, and distress-driven turnover predominates).

Proposition 7 (Management quality contingency). The marginal contribution of management practice quality to EGV is contingent on life-cycle domain: low in Domain α , moderate and increasing in Domain β , and high—approaching decisive—in Domain γ .

Covenant Governance, Micro-Covenants, and Crisis Resilience

Proposition 8 (Covenant Governance and crisis). Firms that develop Covenant Governance—characterized by relational contracts, systematic dignity investment, and identity-based

organizational commitment—accumulate a Credit Line of Trust that converts to collective sacrifice capacity during existential crises, producing substantially lower crisis costs than extraction-governed firms.

Proposition 9 (Micro-Covenants and path dependence). Firms that embed Micro-Covenants during Domain α transition more successfully through the Driver Replacement Inflection Point than firms that defer relational investment, because early relational deposits create path dependence that accelerates Covenant Governance development. Conversely, firms that withhold relational commitments during Domain α face relational lockout in Domain γ : accumulated extraction history cannot be reversed through late-stage financial investment.

AI as a Friction Catalyst

Proposition 10 (AI friction catalyst). In AI-augmented environments, improvements in structural friction reduction accelerate the onset of the Driver Replacement Inflection Point by making relational friction more salient and central to performance. Firms that fail to invest in Covenant Governance during early high-growth phases will experience an earlier and steeper decline in the Dividend Offset effect than comparable firms in non-AI contexts.

COVENANT GOVERNANCE: THE INSTITUTIONAL FORM FOR DOMAIN Γ

Covenant Governance is an institutional arrangement characterized by four interlocking elements: (1) relational contracts grounded in long-term mutual investment and socio-emotional exchange (Rousseau, 1995); (2) systematic investment in employee dignity—visible employment protection, consistent development commitment, and respectful treatment of transitions; (3) merit-based advancement tied to long-term contribution rather than short-term metrics; and (4)

leadership accountability structures holding leaders responsible for relational capital, not merely financial results.

The term “covenant” deliberately evokes a commitment transcending transactional exchange. A covenant implies deeper commitment to welfare that persists even when short-term calculations favor defection. This extends Rousseau’s (1995) relational–transactional contract framework: Covenant Governance is not merely a relational contract between individuals but an institutional arrangement that systematically produces and sustains such contracts across the organization.

The central mechanism through which Covenant Governance produces competitive advantage is the Credit Line of Trust: accumulated relational capital that converts to collective sacrifice capacity during existential crises. Prior empirical work illustrates this mechanism through comparative analysis of mid-sized manufacturing firms facing identical 60 percent revenue shocks (Author, 2025a). The Covenant-governed firm resolved its crisis with full talent retention at contained cost; the extraction-governed firm incurred crisis costs orders of magnitude larger—including lawsuits, mass departures of 68 percent of R&D personnel, and loss of institutional knowledge—and never recovered its competitive position. Core Code Theory (Author, 2025b) provides the psychological mechanism: identity fusion (Swann, Jetten, Gómez, Whitehouse, and Bastian, 2012). When organizations demonstrate sustained benevolence, employees incorporate organizational membership into their self-concept. Organizational threats become personal threats, activating collective sacrifice that transcends rational self-interest and solves the collective action problem (Olson, 1965).

BOUNDARY CONDITIONS AND ALTERNATIVE EXPLANATIONS

Industry context and PMD variation. The Dividend Offset is strongest in industries where product–market advantages generate large, visible rents—technology, pharmaceuticals, and platform businesses. In commodity industries where PMD is inherently low, governance quality may be decisive from inception, effectively compressing or eliminating Domain α .

Capital intensity and asset structure. Capital-intensive firms (hardware manufacturing, infrastructure) face death chaos substantially faster than asset-light firms when PMD erodes, because resource slack is tied up in physical assets rather than liquid reserves. The Dividend Offset collapses rapidly when the firm cannot redeploy fixed assets to absorb friction. This implies greater urgency to begin Covenant Governance investment during Domain α , as the margin for error at the inflection point is narrower.

Sectoral velocity. The temporal structure of DDRT depends on sectoral velocity—the speed at which product generations, business models, and competitive positions turn over. In slow-moving sectors (heavy manufacturing, utilities), firms may enjoy a wide Domain β with time to codify routines and experiment with governance reforms. In ultra-fast clock speed sectors (consumer AI, certain digital platforms), Domain β may be extremely compressed or almost absent. Organizations face a stark choice: leap directly from Jungle Explosion to Enduring Governance—investing in Covenant Governance while PMD is still high—or risk collapsing into death chaos before scalable fortification can stabilize the system. The higher the sectoral velocity, the shorter the effective governance investment window and the greater the strategic value of early Micro-Covenants.

Cultural and institutional context. The specific form of Covenant Governance may vary across national and cultural contexts. The underlying mechanism—relational investment

building a Credit Line of Trust—is expected to hold across contexts, but institutional expressions will differ. Cross-cultural research is needed to identify functional equivalents.

Alternative explanations. Financial slack theory suggests resource abundance during growth buffers dysfunction. DDRT subsumes this: financial slack is one channel through which PMD attenuates structural friction, but DDRT identifies additional channels and theorizes the structural–relational asymmetry that financial slack theory does not address. Population ecology might suggest selection rather than adaptation; longitudinal within-firm designs can distinguish these. Upper echelons theory attributes the chaos paradox to leadership quality variation; DDRT’s GQ construct encompasses leadership quality but embeds it within a broader institutional framework more resistant to single-leader dependence.

FIGURES AND TABLES

Figure 1. The DDRT Domain Transition Map. The figure plots the declining strategic contribution of product–marketing dividends (PMD, blue curve) and the rising contribution of governance quality (GQ, green curve) across three developmental domains. Domain α (Jungle Explosion) is dominated by PMD, which buffers structural friction and enables vital chaos. Domain β (Scalable Fortification) is the inflection zone where the curves converge. Domain γ (Enduring Governance) is dominated by GQ, where the Credit Line of Trust determines survival. The shaded vulnerability gap marks the interval where PMD no longer fully offsets friction, but GQ has not yet risen sufficiently, creating maximum strategic risk. Four early-warning indicators (talent acquisition cost signal, turnover character shift, innovation rent compression, relational friction surfacing) are marked preceding the inflection point. Micro-Covenants planted during Domain α and early β serve as relational seeds that compound into the Credit Line of Trust,

while the $45\times$ Survival Premium in Domain γ reflects the documented cost advantage of Covenant Governance over extraction governance during identical crises.

Insert Figure 1

Figure 2. The Dividend Offset Mechanism. Panel A illustrates how the same level of internal friction (IFI) leads to very different Enterprise Growth Velocity (EGV) outcomes under high versus low PMD conditions, generating vital chaos in the former and death chaos in the latter (Proposition 1). Panel B illustrates Proposition 2 by distinguishing structural friction (IFIs), which PMD absorbs readily, from relational friction (IFIR), which accumulates as latent relational liabilities even under high-dividend conditions, creating hidden management debt that surfaces when dividends fade.

Insert Figure 2

Table 1. Summary of DDRT Developmental Domains

Dimension	Domain α : Jungle Explosion	Domain β : Scalable Fortification	Domain γ : Enduring Governance
PMD	High: strong innovation rents	Moderate–declining: competition erodes rents	Low: advantages competed away
Structural friction	High but buffered by PMD	Declining as processes formalize	Low (if governance strong)
Relational friction	Accumulating silently as management debt	Surfacing as growth excitement fades	Decisive: determines survival
GQ	Low–moderate; Micro-Covenants possible	Increasing; formalization + relational investment	High and decisive

Chaos character	Vital: growth-aligned turnover	Transitional: mixed signals	Death (if GQ low): distress turnover
AI effect	Amplifies PMD (product capability)	Reduces structural friction; exposes relational	Friction catalyst: accelerates inflection

Table 2. Extraction Governance versus Covenant Governance

Dimension	Extraction Governance	Covenant Governance
Contract type	Transactional: short-term, monetizable, limited mutual investment	Relational: long-term, socio-emotional, high mutual investment
Primary target	Performance UI (measurable, AI-replicable outputs)	Core Code (identity-driven, inimitable capabilities)
Friction profile	Low structural (process control) but high relational (trust erosion)	Moderate structural (flexibility) but low relational (dignity investment)
Crisis response	High cost: large, unplanned talent losses, reputational damage, costly rehiring and onboarding cycles	Lower cost: contained financial impact through negotiated adjustments and collective sacrifice, with reputation and capabilities preserved
AI-era response	Intensify monitoring → amplifies relational friction	Invest in human dignity → mitigates relational friction
Path dependence	Relational lockout: extraction history cannot be reversed through late-stage investment	Relational compounding: Micro-Covenants accumulate into Credit Line of Trust

Table 3. Construct-to-Measurement Mapping for Empirical Testing

Construct	Operational Definition	Data Sources	Measurement Approach
EGV	Composite of revenue growth rate, market share change, valuation trajectory	Compustat, Capital IQ, Refinitiv, Crunchbase (private firms)	Standardized composite index; 3-year rolling window

PMD	Strength of external competitive advantages: innovation rents, market position, brand premium	Gartner/IDC (market share), Compustat (gross margin premium, R&D intensity), Google Trends (brand)	Multi-indicator z-score index; factor analysis for weights
IFI-Structural	Coordination failures, role ambiguity, management quality gaps	World Management Survey, 10-K (reorg frequency), LinkedIn (structural change velocity)	Composite of management practice scores (inverted) + structural change indicators
IFI-Relational	Trust erosion, morale deterioration, psychological contract breach, identity disengagement	Glassdoor/Indeed (culture ratings, CEO approval); employee review text corpora	Numeric ratings + unsupervised NLP (LDA topic models or transformer-based embeddings) to capture themes of betrayal, disrespect, burnout, and loss of meaning
GQ	Quality and character of governance: relational vs. extraction orientation	WMS (management quality), Glassdoor (culture + values), BoardEx (leadership stability)	Multi-dimensional index: practice quality + relational indicators
Life-cycle domain	Configuration of PMD, IFI, GQ corresponding to $\alpha/\beta/\gamma$	Derived from PMD, IFI, GQ + firm age, size, growth trajectory	Latent class analysis or cluster analysis; continuous composite for interaction models
Inflection indicators	Convergence of talent cost signal, turnover shift, rent compression, friction surfacing	LinkedIn (recruiting metrics), Glassdoor (sentiment), Compustat (margins)	Threshold detection: moving-average crossover of PMD and GQ contribution to EGV

DISCUSSION

Theoretical Contributions

DDRT makes four primary contributions. First, it resolves the chaos paradox by formalizing the Dividend Offset Mechanism with the structural–relational friction asymmetry, generating more precise predictions than existing frameworks about which organizational dysfunctions

accumulate invisibly during high-growth periods. Second, it transforms the Driver Replacement Inflection Point from a retrospective label into a prospectively identifiable juncture through measurable early-warning indicators. Third, it bridges the apparent incompatibility between early-stage speed and late-stage governance through Micro-Covenants and relational path dependence, while theorizing relational lockout as the cost of deferred relational investment. Fourth, by theorizing AI as a friction catalyst rather than merely a productivity tool, DDRT provides the most complete account of AI's organizational implications to date—showing that AI simultaneously resolves structural friction while making relational friction more salient, thereby making the governance question the decisive strategic variable.

Practical Implications

DDRT offers four actionable implications. First, the theory counsels against premature formalization in Domain α while urging leaders to distinguish tolerable structural chaos from accumulating relational damage. The question is not “Is our organization chaotic?” but “What kind of friction are we generating?” Second, the inflection point indicators provide a monitoring dashboard. Third, Micro-Covenants—dignified departures, crisis transparency, and selective long-term commitments—provide a practical bridge between high-growth speed and governance investment. Fourth, AI deployment strategies should be evaluated not only for structural efficiency gains but also for relational friction costs; strategies that signal employee replaceability accelerate the governance crisis they are intended to prevent.

Future Research Agenda

Longitudinal panel studies. The most direct test requires firm-level panel data spanning 5–10 years (see Table 3 for construct-to-measurement mapping). Panel fixed-effects models with the

PMD $\times$ IFI interaction—disaggregated by structural and relational components—provide the primary identification strategy. Exogenous shocks affecting PMD but not IFI enable difference-in-differences designs for causal identification.

Friction typology studies. Proposition 2’s structural–relational distinction requires measurement innovation. Future empirical work can leverage advances in natural language processing to operationalize relational friction more precisely. Unsupervised topic modeling (LDA) and transformer-based embeddings applied to large corpora of employee reviews can recover latent themes of perceived betrayal, disrespect, and loss of meaning that go beyond numeric satisfaction scores, aligning DDRT with emerging AI-era measurement approaches.

Micro-Covenant case studies. Proposition 9’s path dependence claim is best tested through comparative process-tracing of firms that embedded Micro-Covenants during Domain α versus those that deferred relational investment. Matched-pair designs controlling for industry, size, and growth trajectory could identify the causal contribution of early relational deposits.

AI–friction field experiments. Proposition 10 can be tested through within-firm variation in AI deployment approaches: organizations implementing AI with concurrent Covenant investments versus extraction-style implementation would reveal the friction catalyst effect.

CONCLUSION

Dynamic Driver Replacement Theory addresses a fundamental question in strategic organization: why does the same observable “chaos” accompany extraordinary growth in some contexts and catastrophic decline in others? By specifying how the strategic importance of external dividends and internal governance shifts across developmental domains—and by distinguishing structural

from relational friction, formalizing the inflection point with measurable indicators, introducing Micro-Covenants and relational lockout as path-dependent mechanisms, and theorizing AI as a friction catalyst—DDRT provides a unified framework integrating organizational life-cycle theory, high-growth firm research, complexity theory, and management practice scholarship.

The theory carries an urgent practical implication. Organizations relying on extraction governance while riding high product–market dividends are simultaneously solving the easy problem (structural friction, which dividends already buffer) and creating the hard problem (relational friction, which accumulates as management debt). When dividends erode—as they inevitably will—and when AI commoditizes the codifiable capabilities extraction governance optimizes, these organizations will discover they have destroyed the only assets that justify a human premium: the identity-based capabilities of moral courage, collective sacrifice, and crisis resilience that Covenant Governance cultivates and extraction governance systematically destroys.

The time to build Covenant Governance is during prosperity, not crisis. The wolves may win sprints. The homes will endure.

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