

Crisis Event, Uncertainty, and the Way Forward

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ABSTRACT

The paper discusses ways to mitigate organizational situations arising out of crises and subsequent prolonged periods of uncertainty. I conceptualize three high level stylized behaviors and, specifically, talk about how under such conditions, one of the main aims of the organization is likely to alleviate stakeholder concerns; and so which stylized frame lends itself better to such behavior. Along with this more macro-level, broad, organizational motive in sensemaking - specifically, sensegiving, and symbolic management, I also try and understand issues concerning micro-level efficiency. I make four propositions; and in the process, also investigate the moderating effect of learning culture prevalent in the environment.

INTRODUCTION

Dane and Pratt (2007) argue that environmental uncertainty results in a shift away from structured problems and standard operating procedures and is likely to result in a multitude of 'plausible alternative solutions' rather than a single objective criterion for success. The authors also talk about how under such conditions, decision making scenarios may move away from the intellectual end of the task continuum. In this paper, I specifically look at organizational decision making in situations characterized by crisis and uncertainty and put forth three stylized frames organizational decision making.

To assuage stakeholder apprehensions, under conditions of crises and uncertainty, it is possible that organizations indulge in symbolic management. This behavior is then discussed in light of the proposed stylized frames. Also I look at the role of prevalent learning culture in the environment to better understand the behavioral phenomenon. At a micro-level, the firm is also likely to be concerned with problems arising out of inefficiency and lack of flexibility in a volatile climate. In studying this broad relationship framework, I make four propositions.

LITERATURE REVIEW

One of the perspectives in decision making focuses on organizational learning (Levitt and March, 1988), especially ideas of local search (Cyert and March, 1963). The concept of economic rationality, on the other hand, dwells on how decisions are made ex ante - using as a referent a broad, deterministic causal structure linking action and outcome.

Also, conceptualized as a continuum, the notion of bounded rationality, has helped spawn a research tradition that focuses on individuals as explicitly considering the possible

consequences of the choices they make (March and Simon, 1958; Simon, 1991). Weber (1978) talks about how rationalization leads to the differentiation of society into distinct, autonomous, and constantly colliding spheres of activity—‘value spheres’—each with its own set of values, norms, and obligations - each value sphere has patterns of action and ways of life that are defended as rational, while those of other life spheres are labeled irrational. Townley’s (2002) research specifically looks at four different types of rationalities –substantive, theoretical, practical and instrumental – and studies their interactions in an organizational context.

Thus literature is replete with a variety of conceptualizations of rationality and decision making. These constructs cover a broad spectrum and are operationalized in individual as well as organizational contexts.

Simon (1977) talks about hierarchy as applied to the architecture of complex systems as simply being a set of Chinese boxes of a kind in which a box encloses a second box, which, in turn, encloses a third and so on. I would like to draw attention to an organizational structure that resembles the one conceptualized in this chapter. Lin’s (2002) research talks about how in a crisis situation, organizations are likely to follow a cascade process in which they rely on stronger ties first until there is additional resource needs before activating weaker ties. The author discusses how this process can go on until all the resource needs are met and the stable stage is reached. Results from a computational model simulating such a cascade process and a contrast process, the sequential/random process, show that organizations following the cascade process can exhibit much higher efficiency, though there is a decreasing effect as the severity of the crisis increases (Lin, 2002).

This type of research I think draws attention to the process or flow of decision making and promotes discussion which points more towards saliency. Also more the severity of the crises less effective is the more ‘outside-in’ behavioral approach.

Tsang and Zahra (2008) discuss how crises events are usually accompanied by superficial remedies and delays – instead of examining their deeply held values, executives may initiate minor revisions to certain operational issues. The authors further say that as crises intensify; rigidity of beliefs intensifies, limiting the firm’s responses to the forces of change causing the organization to eventually collapse. They also discuss possible responses to such changes – specifically, how organizational unlearning refers to the discarding of old routines and replacing them with new ones, if any – also, Nystrom and Starbuck (1984) recommend purging top managers even if the newcomers have no more ability or expertise than the incumbents.

Thus past research has discussed decision making phenomenon in light of a cascade or saliency driven process as well as crises situations that are characterized by organizational inaction and purging of firm resources or assets. What is not clear is what behaviors are the organizations likely to be engage in during prolonged periods of high uncertainty after an episodic crisis moment. Some of the main goals of an organization are likely to be growth and profitability. Specifically, in these situations, it would be interesting to understand a bit more about organizational decision making tendencies that are likely to be aligned with such explicit goals of the firm. I intend to leverage previous literature in understanding decision making in this specific context.

Feldman (1989) discusses sensemaking as an interpretive process that is necessary for organizational members to understand and to share understandings about such features of

organizations as what it is about, what it does well and poorly, what the problems it faces are, and how it should resolve them. The author also talks about how sensemaking, of which interpretation is a component, has widespread acceptability – wherein most descriptions of interpretation focus on some kind of text. What sensemaking does is address how the text is constructed as well as how it is read - sensemaking is about authoring as well as reading (Weick, 1995). I take a more of a open systems perspective and classify for the purposes of this paper, and look at stakeholders outside the boundaries of the firm – like the shareholders and the customers. And the manner in which these members that form a part of the environment also partake in the firm's sensemaking process.

Mailloux's (1990) research talks about how interpretation is 'acceptable and approximating translation'. The author elaborates that an 'acceptable' reading is one that has some statute in a community, an 'approximating' reading is one that attempts to capture something, such as an intention, that is presumed to be 'there', and 'translation' is an activity such as historicizing, allegorizing, or punning that gives form to the approximation. Thus, when interpretation is equated with translation, the interpretation points in two directions simultaneously - it points towards a text to be interpreted, and it points toward an audience presumed to be in need of the interpretation (Weick, 1995). Thus sensemaking has a fair amount to do with how sense is imparted as well as acknowledged and interpreted. Under conditions of high levels of uncertainty, it is likely to be difficult for the stakeholders to make sense of how the firm's future is going to unfold.

Weick (1995) also discusses how a considerable part of sensemaking deals with attending to cues that are relevant to an individual's past experiences. The stakeholders that exist outside the boundary of the firm are likely to interpret such organizational cues in light of their own

experiences and beliefs. Higher the saliency of the cues demonstrated by the organization to the stakeholder higher is the propensity that the stakeholders will attend to and interpret them.

Levitt and March (1988) discuss how organizations can learn from the experience of others. They also talk about how the speculation that learning can improve the performance of organizations is confirmed by numerous studies - the observation that learning is beneficial to organizations is not empty.

Thus this broad level, pervasive, understanding of how learning is likely to be beneficial can be leveraged by organizations to structure their sensegiving activities.

Westphal and Zajac's (1998) research finds support for how symbolic corporate actions can engender significant positive stockholder reactions. The authors discuss how certain features of the stock market make it particularly receptive to symbolic action. They also talk about how investors are intendedly but boundedly rational information processors who are interested in reducing uncertainty. This perspective, the authors say, helps explain the findings of a survey that 'stockholders were willing to pay 11 % more on average for companies considered well-governed' and that companies seek to make governance changes that can 'reassure—or at least placate—restive investors' (Business Week, 1997: 34).

Saraswathy (2001) talks about how in economics and management theories, scholars have traditionally assumed the existence of artifacts such as firms/organizations and markets. The author argues that an explanation for the creation of such artifacts requires the notion of effectuation – causation rests on a logic of prediction, effectuation on the logic of control. Also Levitt and March (1988) talk about how theories of organizational learning can be distinguished from theories of analysis and choice which emphasize anticipatory calculation and intention

(Machina 1987). Under situations characterized by high levels of uncertainty, it is possible that organizations look to maintain a degree of control rather than proactively engage in predicting the future.

Levinthal (1997) developed a simple model to explore the interrelationship between processes of organizational level change and population selection forces - a critical property of this model is that the effect on organizational fitness of the various attributes that constitute an organization's form is interactive and as a result of these interaction effects, the fitness landscape is 'rugged'. The authors also talk about how the ability of established organizations to respond to changing environments is importantly conditioned by the extent to which elements of organizational form interact in their effect on organizational fitness - tightly coupled organizations are subject to high rates of failure in changing environments.

CRISIS, UNCERTAINTY AND SYMBOLIC ORGANIZATIONAL SENSEGIVING

Townley (2002) paper talks about how there are 4 types of dominant rationalities – value driven, instrumental, process driven, and normative. Either of these or in a variety of combinations is thought of as a base to structure a decision. I take up crisis events as a context and look at how such caricatured rationalities can drive organizational decision making. Specifically, I take up crisis events characterized by prolonged durations of uncertainty.

During an episodic change in the external environment, a peripheral sub-organizational structure, like the marketing department, for instance, is likely to receive the first signals of impending change. The core of an organization – its technology (Stinchcombe, 1965) – is the more protected organizational component. Managing shareholder profit is likely to be one of the

more important goals for an organization. In the world of monthly organizational targets, monitoring of performance on the stock exchange, and financial analysts expectations; in moments of crises, it is conceivable to think of an organizational attempt to change that is driven directionally ‘outside-in’.

Thus in an endeavor to make sense of the immediate environment, the outer assemblages that are closer to the market (such as marketing) react first and only if the firm fails to align better the inner substructures (technology driven) are likely to be called upon to respond –much like the saliency driven cascade process discussed in Lin (2002) and structurally in line with the Chinese boxes discussed by Simon (1977). Such a stylized framework for rationality precedence over time is conceptualized to flow from instrumental to process/normative to value driven – I conceptualize this type of behavior as Type A for the purposes of this paper.

Gavetti and Levinthal (2000) make a distinction between cognitive or forward looking intelligence and experiential or backward looking search. The first form is based on the actor having a reasonably strong idea about the action-outcome linkage whereas the second form has more to do with how wisdom accumulates as a result of past reinforcements and feedbacks. It is possible that crisis events lead organizations to question their more core components in an ‘outside-in’ saliency driven cascade approach as depicted in Type A behavior. In such situations they are likely to question and seek a change in their core structure. Gavetti and Levinthal (2000) though talk about how the forward looking intelligence is more aligned with ex ante business planning and how such a form of intelligence is more concerned with understanding the state of the world. Thus the Type A rationale of understanding the immediate environment and reacting in a saliency driven cascading manner is likely to be associated with the first form of intelligence addressed in the authors’ paper.

Type A's 'outside-in' flow finds similarity in organizational unlearning (Tsang & Zahra, 2008) – with the possibility of the organization ultimately acting on reducing its number of routines or selling of its assets and in Nystrom and Starbuck's (1984) recommendation for purging of top managers (to get rid of tacit human storage bins (Cross & Baird, 2000)). This is likely when marketing or other peripheral efforts are not sufficient to counter the crisis situation. Under such circumstances, it is possible that questions might be raised about the firm's more core value propositions or technologies.

In situations characterized by uncertainty it is also possible that decision makers in the organization find it difficult to identify the way forward and do not act. Unforeseen episodic crises moments are also likely to be associated with loss making. Under extreme loss making, managers are prone to demonstrating behavior bordering on inaction – thus unwittingly dipping into the organization's accumulated earnings to pay off the environment. I conceptualize this kind of a behavior as Type B – 'maintaining the status quo'. According to Tsang and Zahra (2008) as crises intensify; rigidity of beliefs intensifies, limiting the firm's responses to the forces of change causing the organization to eventually collapse.

In times of crisis followed by a prolonged duration of uncertainty, I conceptualized the third and final type of stylized organizational rationale as Type C. This behavior is associated with alliance formation. It includes new routine building along with alliance or boundary expansion. Thus, this type of behavior demonstration is conceptualized as being more 'inside-out' – in line with experiential search behaviors. In an alliance, the firm is likely to gain access to its alliance partner's capabilities. Thus by blurring and expanding its organizational boundary a firm is likely to have more variety in its resources that it can leverage under times of duress. This I think is also likely to result in a more flexible organizational form in situations characterized by

uncertainty – especially if the alliances are characterized by weak ties (Granovetter, 1973) – of the kind seen in non-equity relationships or linkages having low mutual investments.

[Insert Figure 1]

In situations characterized by uncertainty, it is possible that the stakeholders external to the firm find it difficult to rate organizational performances. Under such circumstances, firms are likely to employ sensegiving or symbolic mechanisms of one kind or the other to demonstrate behavior that will facilitate the sensemaking process of stakeholders. Here by stakeholders, I mean shareholders and customers. A high level organizational behavior that has alliancing as one of its main components is more likely to convey an organizational intention that has a more positive connotation - than a high level organizational behavior conceptualized in Type A and Type B - comprising of disposing off assets, inaction, and changing the valued core of the organization. Type C stylized behavior thus flows from acknowledging the valued core, communicating it to the stakeholders, building on it, and addressing instrumentality in that broad order.

Even so, over a period of time it doesn't necessarily mean that the troubled organization will keep on forming alliances sequentially. There are likely to be periods where the organization will keep a low profile or prefer to cut down on some of the mutual accountabilities inherent in their linkage relationships. Thus, at the macro level, even if it demonstrates a more coherent face to its stakeholders – that of a more one-dimensional sequential Type C flow - at the micro-level it is possible that the organization recycles through the process flow in a back and forth manner revisiting some of its more granular assumptions from time to time.

Proposition 1: A crisis situation followed by a prolonged duration of environmental uncertainty is likely to be positively associated with the propensity to demonstrate Type C organizational behavior.

Proposition 2: Propensity to demonstrate Type C behavior is likely to be associated with a positive impact on stakeholders in the organizations immediate environment through symbolic management.

UNCERTAINTY AND ORGANIZATIONAL FORM

Policy decision of an organization can be conceptualized as a string of zeros and ones depicting the various states of organization's components (Levinthal, 1997, Gavetti and Levinthal, 2000). Type A behavior as conceptualized in our discussion is likely to lead to a reduction of routines or selling of assets. This reduced hierarchical structure also means lesser flexibility in terms of the policy options available to an organization. Type B behavior depicting inaction maintains the organizations hierarchical structure and thus doesn't facilitate an increase in the organizations policy population base.

According to Levinthal (1997), the higher the number of interacting components within an organization – 'K' in the NK model discussed in his paper - more rugged is the payoff landscape – that is higher is the number of peaks of payoff associated with such an organizational form. Type C behavior - which expands firm boundaries and leads to an increase in the organizations hierarchy - is likely to result in a higher number of interacting components for the firm. This is likely to lead to a greater number of peaks that the organization can possibly scale. This offers a chance for the firm to better align with the environment and in turn improve

upon its efficiency. The hierarchy that I talk about agrees more with the definition of hierarchical or structural complexity defined in Simon (1962).

Proposition 3: Propensity to demonstrate Type C behavior is likely to be positively associated with higher levels of efficiency through better fit with the environment.

MODERATING EFFECT OF LEARNING CULTURE

Alliancing activities indicate positive prospects or intentions of the firm and that such activities also lead to acquisition of resources which are likely to be helpful, specifically, under conditions characterized by duress. Although symbolic behavior of organizations to form alliances is likely to impact stakeholders through this more specific belief that bigger or more is better, I think it is also fruitful to investigate a broader belief regarding the prominence attached by the stakeholders to the culture of learning. Alliancing is also talked about in the context of learning in the literature (Inkpen and Tsang, 2007). Thus, an environment that attaches importance to learning and sees it as having a strong positive connotation; is likely to enhance the relationship between crisis followed by uncertainty, Type C behavior, and impact on stakeholders.

Proposition 4: Learning culture in the environment positively moderates the relationship between crisis followed by uncertainty, propensity to demonstrate Type C behavior, and impact on stakeholders.

[Insert Figure 2]

CONCLUSION

I thus develop some insights into the high level behavioral flows that firms can leverage as they navigate through a crisis event followed by prolonged periods of uncertainty. The archetype alliancing frame adopted by firms under such conditions is likely to lead to better symbolic management. Learning culture is likely to moderate this relationship. Also alliance partners, under such conditions, are likely to accord these organizations flexibility and an opportunity to improve upon their efficiency. Thus the paper makes a contribution in better understanding the macro and micro level processes of organizational decision making under situations characterized by crisis and uncertainty.

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FIGURE 1:

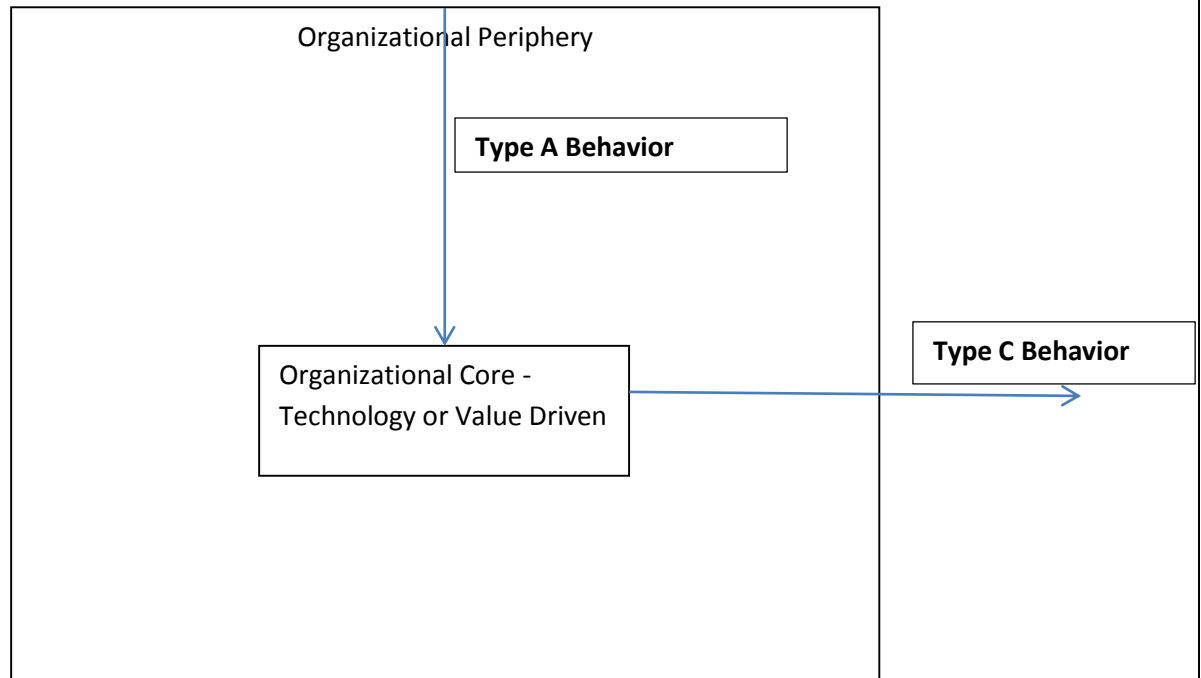


FIGURE 2:

