Check for updates

human relations
THE TAVISTOCK INSTITUTE

human relations
2018, Vol. 71(3) 427–455
© The Author(s) 2017
Reprints and permissions:
sagepub.co.uk/journalsPermissions.nav
DOI: 10.1177/0018726717719993
journals.sagepub.com/home/hum
SAGE

Keeping up with the Joneses: Industry rivalry, commitment to frames and sensemaking failures

Federica Pazzaglia
University College Dublin, Ireland

Maeve Farrell
Accenture, Ireland

Karan Sonpar
University College Dublin, Ireland

Pablo Martin de Holan
MBSC, Kingdom of Saudi Arabia

Abstract
Drawing on a qualitative study of the banking crisis in Ireland, we examine how a cognitive frame of environmental conditions that is shared among industry rivals constrains their ability to act on the cues of slowly incubating threats. We find that shared frames are reinforced through social comparisons that prompt imitation and through their enactment that prompts a reconfiguration of internal control structures and power relationships. The reinforcement of a shared frame dulls the emerging cues of changing market conditions and weakens perception of the risks of staying the course. A core contribution of this study is to highlight the cognitive and political processes by which a shared frame solidifies within an industry, trapping organizations in their enacted environment and resulting in their collective failure.

Corresponding author:
Federica Pazzaglia, School of Business, University College Dublin, Ireland.
Email: federica.pazzaglia@ucd.ie

Keywords
cognitive frames, crisis, cues, framing, politics, risk, rivalry, sensemaking

Introduction

Organizations' failure to act on the cues of slowly incubating threats can have far-reaching consequences for their stakeholders as well as for society at large. Not surprisingly, this phenomenon has received much scholarly attention across a range of perspectives, including organizational crises (e.g. Pidgeon and O'Leary, 2000; Turner, 1976), sensemaking (e.g. Maitlis and Sonenshein, 2010; Weick, 1988) and framing (e.g. Cornelissen and Werner, 2014; Cornelissen et al., 2014). Scholars have attributed this phenomenon to a tendency of individuals, groups and organizations to adhere to existing views and interpretations of their surroundings for longer than may seem useful. The reasons offered for this behaviour include a host of cognitive and political factors such as challenges in processing ambiguous and ill-structured information, erroneous assumptions regarding the meaning and significance of emerging cues, structural impediments to attention and communication, a tendency to seek confirmatory and discount contradictory information and political contests among members over the meaning of cues (e.g. Catino, 2013; Kaplan, 2008; Pidgeon and O'Leary, 2000; Turner, 1976; Vaughan, 1996).

Reflecting on a related phenomenon, albeit from a separate perspective, some strategy researchers have provided evidence indicating that the tendency of rival organizations within an industry to develop a shared understanding of their circumstances could also play a role in their failure to act on slowly incubating threats (Kaplan, 2011; Porac et al., 1989, 1995). This is evidenced, for example, in Porac et al.'s (1989, 1995, 2011) works on the decline of the Scottish knitwear industry, which argued that rival organizations shared a narrow view of their circumstances that paved the way for their collective failure. However, Kaplan (2011) has noted that the studies in this line of enquiry have mainly focused on examining the relationships between shared beliefs and practices within industries and various organizational outcomes, leaving the processes underlying these relationships less explored. The purpose of this article, therefore, is to examine the research question: how does a cognitive frame – a cognitive representation that guides 'perceptions, thoughts and behavioral actions' (Cornelissen et al., 2014: 700) – that is shared among industry rivals constrain their ability to act on slowly incubating threats? We explore this question through a qualitative study of the failure of banks in Ireland to act on the slowly incubating threats that had surfaced in the years prior to the 2008 crisis.

The study makes several contributions. First, it shows how a frame that is commonly held by industry rivals can become solidified through social comparisons that prompt reciprocal imitation and through the enactment of that frame, which prompts a realignment of internal control structures and power relationships. These insights augment current understanding of 'the processes by which commitment [to a cognitive frame] becomes established and binds participants to a particular course of action' (Cornelissen et al., 2014: 702). In developing this explanation, we highlight the interplay of cognitive and political processes, whose influence on sensemaking has been generally studied independently of each other (Kaplan, 2008 is a notable exception) and has been argued to offer 'much potential' (Kaplan, 2011: 686) for future research. Second, it extends the literature on organizational failure to act on emerging threats and organizational crises more generally (e.g. Turner, 1976; Turner and Pidgeon, 1997; Vaughan, 1996; Weick, 2010) by drawing attention to how membership of certain 'cognitive communities' (Kaplan, 2011: 665), such as those of industry rivals, can dull organizational ability to act on emerging dangers and create the preconditions for a collective failure. Finally, we offer an explanation for the financial crisis that emphasizes organizational cognitions and thus departs from the dominant emphasis in prior research on greed or light-touch regulation (e.g. Alvesson and Spicer, 2012; Lounsbury and Hirsch, 2010).

Conceptual background

Crises and sensemaking explanations for organizations' responses to emerging threats

Researchers have provided many accounts of organizational rigidity in the face of cues of slowly incubating threats (e.g. Cornelissen et al., 2014; Kayes, 2004; Turner, 1976; Turner and Pidgeon, 1997; Vaughan, 1997; Weick, 1988, 1993, 2010; Weick and Sutcliffe, 2003). Pioneering work by Barry Turner and his colleagues has drawn attention to the challenges involved in processing cues as they are generally ambiguous, ill-structured and likely to be perceived differently by different individuals within an organization (Pidgeon and O'Leary, 2000; Snook, 2000; Turner, 1976; Turner and Pidgeon, 1997). These factors impose constraints on organizational ability to make sense of cues in the absence of structures and processes that channel and coordinate them (Pidgeon and O'Leary, 2000). Established ways of doing things within organizations, as shaped by institutional and cultural factors, also play a role in creating rigidity in beliefs and behaviours (Pidgeon and O'Leary, 2000; Turner, 1976; Turner and Pidgeon, 1997) as forgetting past knowledge and practices is not an automatic process that starts when cues from the environment are noticed; rather, it is the result of messy interactions among members. These factors could also lead organizations to underestimate the significance and impact of emerging threats. An example in point is Vaughan's (1996: 392) observation regarding the Challenger disaster that NASA's culture 'provided a way of seeing that was simultaneously a way of not seeing'.

Certain structural attributes, such as an organization's size, complexity, hierarchical structure and extent of decentralization and division of labour, can also pose challenges to its ability to make sense of emerging threats as they can create obstacles to communication among members and inhibit their ability to create a coherent narrative of the events unfolding around them and to make sense of them (Cornelissen et al., 2014; Rerup, 2009; Turner, 1994; Weick, 1993). In contrast, the presence of structures and systems that create alertness to critical anomalies and encourage consideration of different interpretations of what is going on can increase organizations' ability to act effectively before a crisis hits (Barton et al., 2015; Pidgeon and O'Leary, 2000; Weick and Sutcliffe, 2003). Moreover, organizations' inertial and order-producing tendencies make change laborious (Martin de Holan and Phillips, 2004; Pidgeon and O'Leary, 2000), leading them to maintain their current course of action.

More recent studies on the topic have been grounded in the literatures on sensemaking and framing (e.g. Cornelissen et al., 2014; Kayes, 2004; Maitlis and Sonenshein, 2010; Weick, 1988, 1993, 2010; Weick and Sutcliffe, 2003). Sensemaking refers to the process by which individuals become aware of novel and ambiguous events occurring around them and create an interpretation of what is going on, generally through interactions with each other (Weick, 1988, 1993; Weick et al., 2005). Central elements of sensemaking as advocated by Weick and his colleagues are the cues noticed by individuals, a frame and a relationship between them through which cues are infused with meaning. These studies have suggested that the process by which individuals within organizations infuse cues with meaning using cognitive frames could also be a motivator of their failure to act on emerging dangers. Some studies have noted that organizations' initial framing of their circumstances serves as an anchor for subsequent interpretations (Weick, 1988, 1993) owing to their tendency to seek confirmatory cues and discount other cues. For example, when the smell of gas started spreading within the Union Carbide plant in Bhopal in 1984, the operation crew dismissed the possibility of a gas leak as the plant had been shut down for maintenance for weeks (Weick, 1988, 2010), and instead believed the smell to be that of mosquito repellent despite the increase in the pressure needle and the early signs of exposure to gas.

Organizations' initial framing of their circumstances is also validated by their enactment through discourse and material acts as members interact with each other (Cornelissen et al., 2014; Maitlis and Christenson, 2014; Weick, 1993, 2010). For example, Weick's (1993) analysis of the Mann Gulch disaster noted how the use of labels such as '10 o'clock fire' solidified early views of the situation being under control that blinded the individuals involved to the threats facing them. Expressions conveying a reassuring message, such as being on a 'learning curve', can similarly validate an existing view of the circumstances and prompt individuals to hang on to it (Weick and Sutcliffe, 2003).

Although prior research has largely focused on the cognitive aspects of frame persistence and organizational responses to slowly incubating threats, a few studies have drawn attention to the role played by power and politics in organizations (Fotaki and Hyde, 2015; Kaplan, 2008; Pidgeon and O'Leary, 2000; Turner, 1976; Vaughan, 1996). These studies have noted that organizations may fail to act on slowly incubating threats if they prioritize the needs of production and profitability over safety concerns (Gephart, 1984; Vaughan, 1996), the interests of influential individuals over others in organizations (Fotaki and Hyde, 2015; Staw and Hoang, 1995) or the views of members over those of outsiders (Turner, 1976). Organizations may also be unwilling to acknowledge and/or analyse near misses and small failures, thereby unconsciously promoting a commitment to the status quo that inhibits learning (Pidgeon and O'Leary, 2000). Sensemaking and framing researchers have also proposed that organizational actions in the face of emerging threats are influenced by the contests over interpretations among members (Kaplan, 2008; Maitlis, 2005; Weick, 1988). Some studies have argued that organizational actions reflect the interpretations of powerful members as those of other members are silenced and/or marginalized (Maitlis and Sonenshein, 2010; Weick, 1988). Others have noted that they may also reflect the interpretations of those members who are more politically skilled (Kaplan, 2008), particularly if uncertainty and turbulence have created a meaning void.

Industry-based explanations for organizations' responses to emerging threats

Strategic management research has also provided valuable insights into organizational failure to act on slowly incubating threats. These studies suggest that shared cognitive frames can emerge among industry members, in much the same way as among organizational members, which inform a narrow view of their circumstances and trap them 'in their locally enacted market spaces' (Porac et al., 2011: 654). For example, research by Porac and his colleagues (Porac et al., 1989, 1995) showed that Scottish knitwear manufacturers shared a narrow view of competition that encompassed only geographically proximate organizations even though foreign manufacturers were rapidly becoming their fiercest competitors. This view persisted because Scottish manufacturers relied on a limited set of sources of information that did not capture what was actually going on in the industry. The industry went on to experience a decline in output and employment of 40–50% in the space of 10 years.

Industry rivals are particularly likely to have shared frames as they tend to rely on the same sources of information (Kaplan, 2011; Porac et al., 1989, 1995, 2011) and on prior experiences, particularly when faced with uncertain, novel and potentially threatening circumstances (Benner and Tripsas, 2012; Johnson and Hoopes, 2003). Similarities in beliefs and practices among rivals can also occur as a result of vicarious learning, the process by which organizations acquire new knowledge by observing the experiences of others and engaging in the imitation of successful practices (Gioia and Manz, 1985; Kim and Miner, 2007; Madsen and Desai, 2010). While more recent studies have mainly focused on material aspects of vicarious learning in the form of imitation or replication of practices, earlier ones noted that vicarious learning involves a transfer not only of practices but also of the cognitive frames that underlie them (Gioia and Manz, 1985). Shared frames and practices may enable virtuous responses, particularly if organizations are able to learn from the failures or near failures of others (Kim and Miner, 2007). However, they could also induce a state of 'competitive myopia' (Porac et al., 2011) whereby organizations underestimate the risks of staying the course and/or practices that are harmful in the long term (Haunschild and Miner, 1997; Levinthal and March, 1993), thus paving the way for collective failure.

Although this evidence hints that the cognitive frames that industry rivals share can inform their responses to emerging threats and contribute to the emergence of crises, we know little about the processes by which this influence occurs (Kaplan, 2011), in large part because these studies focus on establishing relationships between the shared interpretations or practices of industry members and various organizational outcomes. For instance, one or a few organizations may create the preconditions for a dominant frame to emerge and propagate within an industry, shaping the interpretations of its members, as has been shown to happen in studies of individual organizations (Maitlis and Lawrence, 2007). Thus, in this study, we explore how a cognitive frame shared among industry rivals can blind them to the early cues of emerging threats. In doing so, we are mindful of the insights into the cognitive and political factors that can bring about organizational failure to act on slowly incubating threats produced by the organizational crises, sensemaking and framing literatures (e.g. Cornelissen et al., 2014; Turner and Pidgeon, 1997;

Weick, 1988). We are also attuned to the possibility that the processes by which the shared frames of industry rivals influence their responses to emerging threats are also influenced by cognitive and political factors (Kaplan, 2011; Porac et al., 2011).

Method

Background and research approach

This article is grounded in a longitudinal, qualitative analysis of the events preceding the 2008 banking crisis in Ireland. In September 2008, the prospect of a series of bank failures, prompted by a dramatic fall in market values and rumours of a run on the banks, led the government to nationalize or recapitalize the three largest national banks and to seek a bailout worth billions of euros from the International Monetary Fund and the European Union. This was an ideal context in which to study our research question, because several theoretical concepts of interest were readily observable (Yin, 2009). First, in the months following the start of the crisis, official investigations and media reports suggested that the crisis had unfolded over a number of years, during which a number of cues had been present but had gone unheeded by banks. Second, owing to the harsh consequences of the crisis, this context presented much potential for ensuring access to a large volume of data sources.

The use of a qualitative approach (e.g. Isabella, 1990) was particularly relevant to our research question as it allowed us to capture how actors made sense of and experienced the events occurring in the banking industry in the years before the crisis. These aspects are less accessible through quantitative data, as they form in complex social settings in which causal dynamics are not immediately apparent (Eisenhardt and Graebner, 2007).

Sources of data

Interviews. Interviews conducted with individuals who could describe and discuss their experiences of the events that took place in the banking industry comprised our primary source of data. Initial informants were identified based on our personal knowledge of the banking industry in Ireland. One of the authors had access to a few individuals in managerial positions through her professional network, while another had been involved in some earlier work with managerial staff in the banks. In selecting initial informants, we were mindful that an organization's noticing and understanding of cues is shaped by both top and middle managers (Maitlis and Sonenshein, 2010). These individuals directed us to others, thereby making our sampling both deliberate and emergent. Some of these informants were employed by the banks in a managerial role, while others were individuals whose jobs required them to interact closely with the banks (i.e. bank auditors). The final sample included 28 informants: 22 managerial-level staff in the six main banks, four bank auditors, one financial advisor and one regulator. We interviewed two informants twice, giving a total of 30 interviews.

The interviews typically lasted one hour, ranging from 30 minutes to one hour and 20 minutes. For confidentiality reasons, interviews were not recorded. Instead, we took detailed notes that were typed up immediately after each interview. Interviews were semi-structured and started with a series of open-ended 'grand-tour' questions (McCracken, 1998), such as asking our informants to explain their background and experience in the banking industry. Next, we asked them to reflect on those events that had taken place in the industry before the crisis and that they viewed as critical, describing what happened in as much detail as possible. As informants mentioned specific events, we asked further questions to obtain a rich description of their understanding of them, of the other notable occurrences surrounding them and of the banks' reactions to them. We also asked informants to identify any worries that they had had, or perceived others as having, at the time. This part of the interviews sought to gather information on informants' perceptions, concerns and reactions to each event. This means of retrospectively analysing actors' interpretations of key events is consistent with prior studies in the crisis and sensemaking literatures (e.g. Isabella, 1990). We stopped conducting interviews when our coding stopped producing novel insights, which indicated that we had reached theoretical saturation (Strauss and Corbin, 1998).

Archival records. We obtained several thousand pages of archival records on the banking industry from 2003 to 2008. We organized these documents into four categories: banks' annual reports, newspaper articles, regulatory agencies' annual reports and inquiry reports. These documents helped us triangulate the insights emerging from our analysis of the interviews (Jick, 1979) to develop a more complete understanding of the events taking place in the banking industry before the crisis and of the banks' responses.

We collected the annual reports published by the six main banks operating in the industry. These data, which comprised approximately 30 documents and 4000 pages, were used to comprehend how the banks responded to those events that attracted their attention. Based on prior studies (e.g. King and Soule, 2007), we also collected approximately 1300 articles published in the leading national newspapers *Irish Times, Irish Independent, Irish Examiner, Sunday Business Post* and *Sunday Tribune* from the electronic database Lexis/Nexis. Newspaper articles were a valuable data source for this study as they tend to report the facts of an event accurately (King and Soule, 2007). We also collected 11 annual reports published by the regulatory agencies that were overseeing the banking industry, namely the Central Bank of Ireland and the Financial Services Authority (approximately 1500 pages). We used these documents to check and corroborate our informants' descriptions of the key events occurring in the industry in the period leading up to the crisis.

Last, we had access to three public inquiry reports that illustrated the evidence collected by three independent committees appointed by the government to examine the events leading to the banking crisis. Inquiry reports are often used in crises and sensemaking studies as they provide 'an account of what happened, why it happened, and who was responsible' (Maitlis and Sonenshein, 2010: 554; Pidgeon and O'Leary, 2000). The first two reports (Riegling and Watson; Honohan) were published in 2010, the third (Nyberg) in 2011. The three reports drew on extensive documentary sources and interviews. As an illustration, the commission that produced the Nyberg Report states that it collected and analysed approximately 200,000 documents and 140 interviews. We used these documents to triangulate (Jick, 1979) the evidence emerging from the interviews and archival data.

Analytical procedures

Our analysis followed established conventions of qualitative research (Locke, 2001; Miles and Huberman, 1994). We engaged in several rounds of coding, comparing and contrasting the data with the theory. Each source of data was examined, looking for comments on the type and tone of cues occurring around and within the banks and on the actions taken in response to them. As this step progressed, we developed and applied first-order codes that denote emerging themes. Following the conclusion of our initial coding, we shifted to an abductive approach (Alvesson and Karreman, 2007) by exploring the data along with the literature and searching for frameworks that could help us form a clearer understanding of it. Guided by their understanding of the literature, two of the authors independently organized the first-order codes into provisional second-order categories and then discussed the results of their analyses. After several revisions, we produced a data structure that organized the second-order categories into three aggregate dimensions that comprise our data structure (see Figure 1).

We took a number of steps to enhance the trustworthiness of our findings. First, we used multiple data sources, which allowed us to triangulate our emerging insights (Jick, 1979). The use of archival records also reduced the risk of retrospective sensemaking (Eisenhardt and Graebner, 2007). Second, multiple coders independently coded the data and discussed the coding and development of the data structure. Third, our interviews with other professionals who interacted closely with the banks (e.g. bank auditors) provided us with an insight into the phenomenon from the perspective of these different stakeholders so that we could both cross-validate and elaborate prior findings. Finally, we conducted several member checks (Nag et al., 2007) by sharing our emerging insights with some key informants.

Findings

Our analysis revealed that the banks had taken notice of a number of cues surfacing from their industry, such as the entry of new rivals and the initiatives of some peripheral actors seeking to increase their market share. They also noticed cues of changing market conditions, such as declines in property prices, instances of customers missing payments on outstanding loans and all-but-dried-up sources of capital. These cues were interpreted using a cognitive frame that was pervasive among banks, according to which the competitive moves of other banks posed a threat to their market share and survival, while market conditions, despite being in a state of flux, were relatively benign. This view was reinforced through social comparisons among banks, which prompted imitation, and through a reconfiguration of the banks' internal structures and power relationships, which impeded their ability to act on the threats facing them. We now describe our findings in greater detail (see Table 1).

Cues noticed

Competitive cues. Multiple informants recalled how, beginning in the mid- to late 1990s, the banking industry had become increasingly competitive. For example, Informant 9

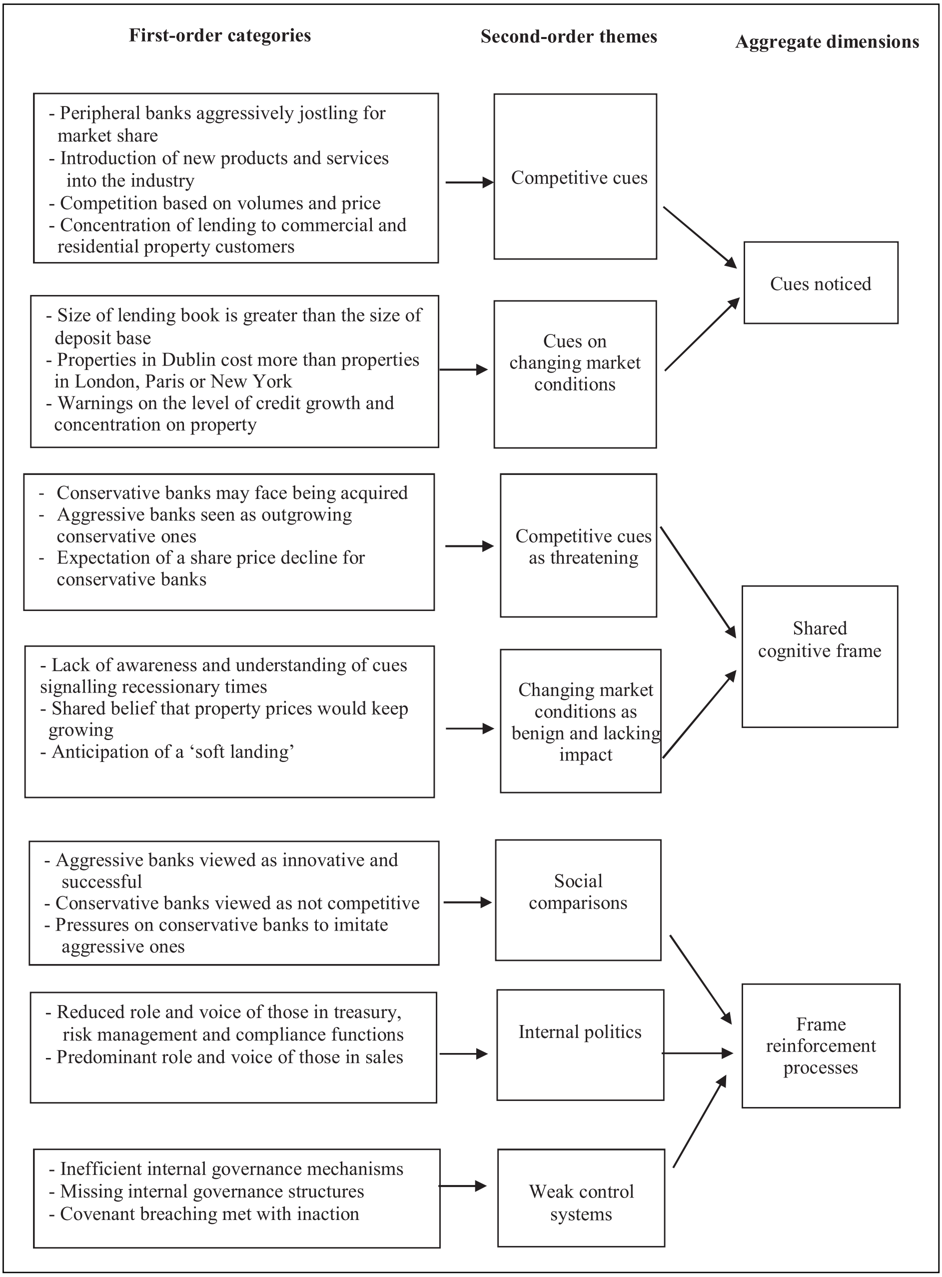

Figure 1. Data structure.

recalled how 'it became a very competitive industry. It always had been quite competitive but things really started to heat up then'. Informant 26 similarly described the level

Table 1. Representative quotations.

	Representative supportive data for aggregate dimension: Cues noticed
Competitive cues	There were more banks active in the market . . . it was extremely competitive. (Informant 7)
	[There was] very strong competition, particularly by the UK lenders. On the Irish front, Bank 1 was really stretching the rules. They created a new template for the business of banking. (Informant 28)
	AIB has been quick to meet the challenges of increased competition with a compelling mix of products and services. (Anglo Irish Bank Annual Report, 2006: 5)
	Competition further intensified during the year in an oversupplied market with all institutions seeking to expand their loan books and build up market share in anticipation of further competition coming from abroad. (Irish Nationwide Annual Report, 2003: 2)
	The market has certainly gotten very noisy, with a lot of new players jockeying for position and saying they're going to take over the world. (*Irish Independent*, 2007a)
	Irish banking has been notching up the profits. There has been little concern for the fact that up to 78pc of bank profits at the big three stem from property. (Aughney, 2006)
	. . . the share of bank assets in property-related lending grew from less than 40 per cent before 2002 to over 60 per cent by 2006. (Honohan, 2010: 26)
Cues on changing market conditions	There were a few small measures noticeable within the bank . . . bad debt cases, the impairments and provisions; we had to develop our 'watch list' looking at potential bad debts. (Informant 2)
	Loans were given for 15, 20 even 25 years but funding for these loans was for the short term . . . There was no long-term funding. (Informant 10)
	There wasn't enough equity to sustain the levels of debt. (Informant 23)
	In the first quarter of 2008 the penny was really starting to drop. There were decreases in houses on the property market, so at that point the imminent property crash did seem inevitable. (Informant 6)
	Does it make sense that a suburban home in Dublin should cost the same as a modest French chateau? (Brady, 2003)
	By the end of 2005 . . . property-related lending in relation to GDP was double that of the UK . . . and proportionate to population, house completions were six times higher in Ireland than in the UK . . . and construction output accounted for 20% of Ireland's GDP. (Nyberg, 2011: 60)
	Residential investment as a percentage of national output reached nearly 13 per cent in 2006, double its long-term average. (Riegling and Watson, 2010: 22)

(Continued)

Table 1. (Continued)

	Representative supportive data for aggregate dimension: Cues noticed
	Representative supportive data for aggregate dimension: Shared cognitive frame
Competitive cues as threatening	Bank 3 looked at Bank 1 and felt the pressure . . . They didn't want this little upstart coming in and 'eating their lunch'. Bank 4 would have done the same. (Informant 5)
	[Some banks] really pushed the envelope in terms of lending [and] the thing is, banks hate to lose business. (Informant 11)
	[More conservative] bankers would have been looking at their [Bank 1 and Bank 5] growth and thinking, 'they're eating our lunch'. (Informant 23)
	Bank of Ireland chief Brian Goggin recently announced that despite increased banking competition nobody was going 'to eat his lunch'. He should open his window and listen to the revving noise coming from George's Quay. It's the sound of Ulster Bank's Cormac McCarthy starting his engine. The blue-eyed boy of Irish banking is setting out to park his tank on AIB and Bank of Ireland's manicured lawns. And then eat their lunch too. (Webb, 2007)
	. . . in their anxiety to protect market share against the competitive inroads of Anglo Irish Bank and UK-based retail lenders, their management tolerated a gradual lowering of lending standards, including decisions to authorize numerous exceptions to stated policies. (Honohan, 2010: 8)
Changing market conditions as benign and lacking impact	People believed that the prices and values would never decline. And the reason for that is because they'd never seen prices decrease before. (Informant 3)
	All of us failed. And that's not what happened elsewhere [such as for instance] in the UK . . . I think the reason for that is the property bubble that they had in the UK in 1991. Ireland had never experienced a property bubble really before. (Informant 6)
	There was a very strong belief that house prices would just keep growing. (Informant 24)
	Economic fundamentals remain firm [and] support ongoing demand for housing, although below the exceptional levels seen in recent years. (Anglo Irish Bank Annual Report, 2007: 14)
	The repeated predictions over the past 10 years of economists, media commentators et al., that the property market would collapse have never been realized. (Irish Nationwide Annual Report, 2004: 6)
	[Banks] seem to have huge and risky loans outstanding to developers. But the banks themselves keep insisting they're as safe as houses. (*Irish Examiner*, 2008)
	'We do not envisage a hard landing or crash in either property prices or in construction output' AIB Global Treasury chief economist John Beggs says. (O'Halloran, 2006)
	In December 2007 . . . the [Finance Regulator] embarked on a special multi-institution inspection to look at the handling by five banks of five large exposures. Complacently, 'all institutions confirmed to the inspectors that they have no concerns with the current or future repayment capacity of any of the borrowers included in the inspection to which they are exposed'. (Honohan, 2010: 70)

(Continued)

Table 1. (Continued)

	Representative supportive data for aggregate dimension: Cues noticed
	Representative quotations for theoretical dimension: Frame reinforcement processes
Social comparisons	Bank 1 kept on going until the end of 2007 and into 2008 and because of their extraordinary profits, along with Bank 3, we were heavily pressurized the whole way, to keep on going. (Informant 6) When you have one company in a tightly grouped pack outperforming others, its effect is very strong. (Informant 26) Bank 1 received praise for how well they were doing and at how they were growing their business. The rest of us banks were put under huge pressure to perform as well. (Informant 10) Bank 1 . . . really pushed up the aggressive lending, building up huge books and their profits were sharply rising all the time . . . In the other banks, management were getting it in the neck from all around them, shareholders, the boards, investors, analysts, commentators . . . (Informant 22) All of the shareholders, both the individuals and the institutional shareholders were demanding more and the only way to make more was to adopt the aggressive lending approach. (Informant 23) Anglo Irish Bank was the indisputable star of the show in Dublin . . . more than overshadowing the rest of the market. (McCaffrey, 2004) Anglo [Irish Bank] in particular was widely admired domestically and abroad, and lauded (by many investors, consultants, analysts, rating agencies and the media) as a role model for other Irish banks to emulate. (Nyberg, 2011: ii)
Internal politics	You had a culture of them vs. us and that represented lending vs. treasury. (Informant 1) I did try to flag the risks . . . I was told 'No, we're going ahead with this'. (Informant 18) It would be extremely difficult for the non-executive board directors to push back where management have strongly put forward a certain strategy. (Informant 24) Anyone who held an opposing view was silenced and sidelined. (Informant 3) I mean I would have seen a few cautious lenders in the commercial lending. There were a few conservative people. But the powers that be said, 'No, we will do it'. (Informant 12) There was a Risk Function Group in [the bank], but in the early days when I started working there I never ever had any reports from risk. (Informant 2) People within the organization at various levels did recognize that something bad was going to happen. But these people just weren't on the front lines at all . . . The internal people that raised concerns weren't really listened to. (Informant 4) There were some indications that prudential concerns voiced within the operational part of certain banks may have been discouraged. (Nyberg, 2011: v)

(Continued)

Table 1. (Continued)

	Representative supportive data for aggregate dimension: Cues noticed
Weak control systems	Their role [of the assets and liabilities committee] was to monitor the balance sheet and ensure that things were being funded properly and not growing too fast . . . In practice, it didn't operate in the way it should have; it was more like a 'talking shop'. (Informant 1) If the value of the security decreases to below the level of the debt, then the borrower would have either had to inject capital or put forward additional security on the loans. However, in reality, I rarely ever saw these covenants acted upon. (Informant 3) Irish banks were giving away the money without really examining the repayment ability of the customers as we had done before. (Informant 15) Where there were borderline lending cases, where the banks weren't 100% sure on the borrower, they relied on the assumption that house prices would keep rising. And what's the worst that could happen there? If the borrower can't repay, they would simply repossess the house. (Informant 28) . . . unlike some others, we never employed people to tell us why we shouldn't lend. (Carey, 2005) An Irish Nationwide Building Society committee set up to approve home loans of over €1m was merely 'a device' to satisfy the Financial Regulator. (*Irish Independent*, 2007) An inspection of credit risk management at Bank C took place in July 2005 . . . There were also 13 Medium Priority findings, such as: the lack of a provisioning policy; no procedures for identifying and dealing with problem credits; the credit committee being pro-forma . . . lack of independence of the credit risk unit review; and unclear credit appraisal/approval procedures. (Honohan, 2010: 69)

of competition as being ‘massive’. Informant 12 further observed that competition ‘kept growing and growing’. Informants’ comments were mirrored by archival sources. For example, Honohan’s (2010) inquiry report noted how, ‘from late 2003 onwards . . . new entrants and incumbents competed aggressively’. The competition authority for the banking industry similarly noted that ‘the market for banking services in Ireland is competitive and is becoming more so every day’ (Farrell, 2005).

Two reasons for the rapid increase in competitive intensity within the industry surfaced from our informants’ comments: the entry of a number of foreign banks and the initiatives of a few smaller domestic banks. Foreign banks had introduced a bevy of new products into the industry that were characterized by a high risk profile and, in doing so, had altered the competitive dynamics in the industry. For example, Informant 18 recalled foreign banks introducing ‘new products to the market [such as] buy-to-let, 100% mortgages’ and explained that buy-to-let meant ‘you not only bought your family home, but maybe another one, two or three or even four properties on top of that’. Informant 16 described how these banks were offering ‘interest-only arrangements for some businesses and certain clients’. Informant 18, who had been working for one of the foreign banks, expressed a belief that their entry into the market ‘really shook up the indigenous Irish banks’ and went on to state that ‘we were the first to bring in 100% mortgages’ as well as ‘45-year mortgages, interest-only loans’.

Meanwhile, Bank 1 emerged from our interviews as the domestic bank that had the greatest impact on the industry, as evidenced by Informant 21’s observation that ‘Bank 1 was a really big catalyst in changing the banking industry’. Informant 26 reflected on the spectacular success experienced by the bank by recalling how it ‘went from being a very modest bank to a really, really large one, almost as big as The Big Three’. A distinctive feature of its approach was its focus on bespoke lending to companies operating in the real-estate sector, which presented high growth potential. Informant 4 noted that while all other banks in the industry had both individual and commercial clients, ‘we [at Bank 1] were only interested in commercial lending’. Informant 1 further noted that ‘the business model of the bank revolved hugely around these high-networked individuals in the property industry’. This informant also observed that Bank 1’s lending to industries other than real estate was marginal as their growth potential was deemed to be ‘not good enough’. The bank’s operations were also characterized by a focus on a small number of customers, which accounted for a large part of their lending. For instance, Informant 2 stated: ‘You know that 80/20 rule? 80% of your business comes from 20% of your clients. I would say that was exactly the case . . . and that 20% were massive, massive [property] developers’.

Cues of changing market conditions. Informants’ comments also revealed several cues that collectively suggested that market conditions were changing. The majority of our informants mentioned that property prices had increasingly fallen out of sync with their intrinsic values and how this showed that a property bubble was forming. For instance, Informant 6 recalled how ‘properties in Dublin were being valued by comparisons with London, New York, Paris [when they] should have been compared with the likes of Birmingham’. Informant 1 similarly recalled that a number of commentators at the time ‘could not get over just how expensive the properties here had become’. An inquiry report similarly noted that 'the three-fold increase in average real property prices 1994 to 2006 was the highest in any advanced economy in recent times' (Honohan, 2010: 24). As the prices of properties increased, so did their availability. By the mid-2000s, the supply of properties was greater than its demand, a trend noticed by several informants, as evidenced by Informant 22's observation that 'there were estates upon estates being built, all over the country, and it was really hard to see where the demand for these properties would come from'. While only few informants mentioned instances when the regulator and/or the media had drawn attention to the growth of property prices in the country, our analysis revealed that both had repeatedly discussed it. The Central Bank of Ireland, for instance, had commented on the level of property prices and their potentially imminent fall in each one of the annual reports published from 2003 to 2007.

Reflecting on the trends that occurred in the years leading up to the crisis, multiple informants recounted witnessing greater instances of customers defaulting on their loans, as evidenced by delayed or missed payments, broken covenants, mounting bad debts and frequent repossessions. Informant 7 recalled instances of 'customers missing payments'. They added how 'companies were defaulting on loans too' and how these instances 'had a knock-on effect' on the economy and on the market's sentiment. Informant 2 recalled being involved in a review of the banks' customers to identify a 'watch list' of 'potential bad debts'. Multiple informants' comments conveyed the view that customers facing difficulties had borrowed beyond what they were able to repay, as evidenced in Informant 11's observation that customers 'were earning hundreds of thousands, but borrowing millions'. Archival sources published in the period echoed these comments. A newspaper article, for instance, observed how 'Last year, for the first time to date, Irish people had more debt than they were able to pay back out of their disposable income' (McCaffrey, 2005). Another reported that 'Repossession orders sought by banks and mortgage companies have more than doubled in [the last] three years' (*Irish Independent*, 2007c).

Many informants also recalled that, in the same period, capital shortages had started emerging within the banks, making it challenging for them to source the capital needed to lend and to create reserves against potential losses. Some informants described how these shortages had become evident when some banks had started selling their properties to raise capital. For instance, Informant 22 recalled hearing the news that 'Bank 3 sold its own premises [allegedly] for capital reasons'. Informant 9 recalled thinking 'how was it that there wasn't enough to do business and they needed to sell some of the properties?'. These and other informants suggested that the capital position of the banks had been negatively impacted by the onset of the global financial crisis when 'all of [a] sudden the availability of credit disappeared' (Informant 10) and 'the cost of funds started to increase' (Informant 18) because they had become 'dependent on the inter-bank market' (Informant 6).

Shared cognitive frame

Our analysis suggested that the banks viewed the changes occurring in the industry as posing a threat to their future prospects. Through their comments, informants expressed concerns about market share and the possibility that one or more banks would be acquired by their rivals. The banks also increasingly viewed competing vigorously with their peers as the only way to counteract this threat. In contrast, changing market conditions were viewed as unlikely to have a significant impact on their operations and thus went largely unheeded.

Competitive cues as threatening. Many informants made comments that reflected a tendency to view the competitive approach pursued by the foreign banks and by Bank 1 as a threat to the profitability of the established banks as it reduced their margins and placed greater emphasis on lending volumes. Informant 15, for instance, recalled how 'Bank 1 drove up the volume of lending and [Foreign] Bank X drove down the price'. Other informants suggested that this approach was also seen as threatening as it aimed to capture an increasing share of the market from the established banks. These informants expressed the view that incumbent banks believed that foreign banks and Bank 1's initiatives would erode their customer base and eventually hurt their profits. Informant 17, for instance, recalled that '[Bank 6], along with Bank 1 of course, were very aggressive in chasing market share. They were really trying to grab at it'. Others variously noted that the incumbent banks 'would have been looking at their [competitors'] growth and thinking, "they are eating our lunch"' (Informant 22) and that a common concern at the time was that 'they [aggressive lenders] might steal away our business' (Informant 18). Discussing the impact of the competitive dynamics in the industry, Informant 6 stated that 'we started to come under serious pressure because Bank 1 was taking our market share'. Informant 7 similarly recalled how '[Bank 6] were extremely aggressive lenders, and they were stealing our customers with this approach'.

Other informants recalled a few developments that they had viewed as suggesting that one or more banks were at risk of being acquired by a competitor looking to increase their market share. The risk of one of the larger, incumbent banks being acquired was perceived to be particularly acute given that the share prices of the most aggressive banks had increased well above the historical level. For example, Informant 24 recalled how 'Bank 1's share price going up and up and up . . . was a huge concern for Bank 2 and Bank 3 at that time' and added that, had Bank 1's price kept increasing, 'they would have been able to acquire either one of those banks within 4–5 years'. Informant 6 commented on the possibility that one of the banks 'would have been bought out by Santander or another European bank'. These views were also confirmed by the archival data. Newspaper accounts contained frequent mentions of the prospect of consolidation in the industry and of some of the banks being potential acquisition targets for their domestic and foreign counterparts. A newspaper article observed how changing industry dynamics had 'sparked the inevitable speculation that either or both of the big two Irish banks are ripe for takeover' (Brady, 2008). A similar observation was also made by Nyberg's (2011: v) inquiry report, which noted how most banks at the time feared that 'they would face loss of long-standing customers, declining bank value, potential takeover and a loss of professional respect'.

The majority of our informants noted how a common view at the time was that an aggressive response was the only viable option to operate in the industry's changing competitive landscape. For example, Informant 18 recalled: 'we became very aggressive to try to provide our customers with the products they were looking for so those who might steal away our business wouldn't get ahead'. Upon reflecting on the banks' response to the events occurring in the industry, Informant 7 stated that the 'response was definitely reactive rather than proactive' and expressed the view that, had the bank not adopted a forceful response, 'we would have been outgrown by all the others'. Informant 8 expressed a similar belief that 'our share prices would have taken a severe hammering if we hadn't adopted the same type of model as the aggressive lenders that we were competing against in the industry'.

Changing market conditions as benign and lacking impact. Our informants' comments suggested that the banks interpreted the cues of changing market conditions as lacking a substantive impact on their activities. Most of them described a widespread view among industry participants that a correction was underway and a 'soft landing' was the most likely outcome of the trends in their environment. In many cases, informants contrasted the situation facing the banks after the onset of the crisis with the one they had envisioned when the cues had started emerging. Informant 1, for instance, noted that 'the situation that we're facing now is much worse than I think anyone could have predicted'. Informant 21 observed how 'there was an expectation of an easing off, a levelling – a soft landing. I think we all knew that things had become a bit overheated. But nobody thought it was going to do what it did'. Informant 20 recalled how 'we felt that we would all roll gently down the hill but what actually happened was that we fell off the cliff'. Others related a common perception that 'everything will be OK' (Informant 8) and noted that 'nobody thought that there would be major issues' (Informant 25). Similar perceptions were also held by individuals regarded as experts. For instance, Informant 6 stated that the impact of the change in market conditions was also a surprise for the economists working with the banks: 'Our economist in Bank 2 was so confident of this. We called him the bank's chief optimist. He was convinced that we wouldn't have a huge crash'. Several other informants made the same point. Informant 22 recalled how 'the economists were all saying that our fundamentals were sound'. Informant 15 recalled how, 'even as late as mid-2008 I remember [the Minister of Finance] on the radio announcing that Ireland had a strong and healthy banking system'. This interpretation is confirmed by the analysis of the archival data. One national newspaper quoted a senior bank manager as saying that 'the risk of a severe correction is low'. Meanwhile, one of the inquiry reports stated that the stress tests conducted by some of the banks as late as 2007 had 'discounted' the more severe downside risk scenarios 'as the banks were confident that a soft landing was [the] likely outcome' (Nyberg, 2011: 45).

Informants' comments suggested that the view that the cues of changing market conditions were not going to have a major impact on the industry was based in part on a lack of awareness of what the cues of an emerging downturn looked like, given that the majority of bankers who had witnessed prior downturns had retired. Informant 6 recalled that 'the last property crisis that had burnt the banks in Ireland had happened in 1976 and was all but a faint, distant memory'. Informant 4 similarly observed that 'if you've never seen something happen before, you don't foresee it as a risk'. Informant 2 admitted to never having heard of such terms as a 'bad-debt case' or having a 'watch list' or 'impairments' or 'provisions' until they started to emerge around late 2008. Informant 11 expressed the view that 'very skilled people were very, very scarce, and I mean experienced people that would have seen downturns before and were not dealing with the issues that emerged for the first time'. Informants' comments on the general lack of experience in the industry with the cues of changing market conditions were echoed by archival sources. For example, a newspaper article (Carswell, 2008) noted the efforts made by the banks to reassure market participants that their senior managers 'can remember the bad times before the decade-long lending, property and consumer boom in Ireland' in light of the fact that 'the age profile of most Irish bank chiefs is relatively young'.

Frame reinforcement processes

The view described above was reinforced over time owing to social comparisons between banks that favoured imitation, to the diminished relevance of internal control processes and systems, and to the shift in internal power structures that reflected the centrality of lending over risk management and treasury. These processes validated the shared frame according to which the banks were facing threats emerging from industry dynamics and further impeded their ability to act on the cues of changing market conditions.

Social comparisons. Multiple informants commented on the reactions of market participants to the new competitive approach that had emerged in the industry, noting that the performance of aggressive banks had earned them praise and admiration and evoked intense comparisons with the more conservative banks. Informant 11, for instance, suggested that 'Bank 1 was a very aggressive lender and it was admired because of that'. Informant 20 recalled that '[Bank 1] were held up as the best-performing bank in Europe'. Others instead commented on the negative characterizations of more conservative banks, as evidenced by Informant 28's statement that 'you would hear Bank 3 and Bank 2 being referred to as boring and conservative'. The mounting discourse celebrating the success of aggressive banks and questioning the others prompted the shareholders and boards of directors of the latter to put pressure on them to imitate the approach pursued by their rivals. For instance, Informant 6 recalled how 'Bank 1 was held up as the star of the show, the one to emulate'. Informant 10 recalled that 'all around the world, Bank 1 received praise for how well they were doing and for how they were growing their business' and explained that, because of this, 'the rest of us banks were put under huge pressure to perform as well'. Informant 15 admitted that 'there's no doubt at all that all the banks played the same game. At the beginning, some were much slower to get involved; they held back. But at the end, all of us were at it'. Informant 6, who had been working for one of the more conservative banks, similarly stated: 'I remember meeting with our accountants, the ones who are supposed to be prudent and conservative, and them asking why our profits weren't as high as [those of] Bank 1'. Informant 18 similarly recalled being frequently asked: 'How is it that Bank 1 can do that and we can't?'.

The comparisons between aggressive and conservative banks and the pressures on the latter to adopt an aggressive competitive posture had a powerful bearing on the banks' interpretation of the cues emerging from their environment. Multiple informants related their view that the banks' focus on catching up with their more successful rivals had impeded their action on the cues signalling that market conditions were taking a turn for the worse and that their aggressive competing approach was unsustainable. Informant 15 recalled that 'by the end of 2007 and certainly into 2008, it was clear that the market was running out of steam. And when we could see this, the response was to run the market even faster'. Informant 1 expressed a belief that 'one thing that damages judgement is the sight of your neighbour getting rich'. Informant 5 similarly recalled how, while in 2006 'there was awareness that the market was becoming unsustainable . . . there was competitive pressure all around to maintain growth levels'. Informant 27 noted that 'management were under huge pressure to get instant results' and suggested that this pressure prompted decisions that 'were rational in the short term but not in the long term'. Informants who had been employed by the most aggressive banks, namely Bank 1 and Bank 5, recalled being aware of the effects their success was having on competitors. Informant 5, for instance, recalled how 'Bank 3 looked at Bank 1 and felt the pressure to emulate that model'. They also added that 'Bank 4 would have done the same'. Informant 1 suggested instead that 'Bank 1's model was clearly not sustainable [and] the other banks should have seen that'.

Internal politics. Many informants suggested that the banks' view that a competitively aggressive approach could boost their market share and standing in the financial community had reshaped their internal power structures. Individuals employed in lending-related functions, which were viewed as having the highest impact on profitability, came to have greater representation in senior managerial positions, such as chief executive and chief operating officer, and on the board of directors. For example, Informant 1 recalled that 'lenders came to dominate the organization'. Informant 2 recalled that 'all of the senior executives at Bank 1 were lenders' and observed that 'there should have been a varied background amongst them but there wasn't'. In contrast, the influence of individuals employed in risk management and compliance, which were responsible for monitoring and assessing the risks involved in the banks' lending activities, was greatly reduced. For example, Informant 4 recalled that 'control in the banks was on the assets side, and not in risk or liability or compliance'. Informant 27 expressed a view that, after the onset of the crisis, 'risk management became popular [after] for years it had been almost made redundant'.

Multiple informants commented on the degradation in the status of the risk-management function relative to the lending function. Few of them, for instance, noted how the Assets and Liabilities Committee, a mandatory supervisory entity responsible for ensuring balanced growth of the banks' assets and liabilities, was often understaffed or staffed with lenders (whose actions should have been scrutinized) or was generally not listened to. While the reduced influence of individuals employed in risk-management, treasury and compliance functions was pervasive among all banks, it was particularly severe in the most aggressive banks. For example, Informant 3 recalled that risk management 'was largely sidelined and devalued' in Bank 1, as evidenced by the fact that the role of 'CRO [Chief Risk Officer] was often combined with another role'. The diminished relevance of risk management is also evidenced by archival sources. Nyberg (2011: 28), for example, noted that Bank 5 lacked a number of board of directors' sub-committees, most notably the risk sub-committee. The report also observed that 'there were functional inconsistencies in the operation of the committees that were in place . . . For instance, the credit committee was populated at times primarily by the lenders who should normally be challenged by such a committee'.

Our analysis also suggests that the reduced influence of risk-management and compliance staff was a key impediment to their ability to assert their views about the emerging threats facing the banks. Informant 18 recalled making attempts at directing the attention of the chief executive and the head of the board of directors to the risks facing the bank in a bid to encourage them to reconsider their pursuit of the new, aggressive lending approach. Their response was ‘No, we’re going ahead with this’. The banks’ treasury function, much like risk management, had been sidelined, as evidenced by Informant 1’s comment that ‘we were hearing stories of the aggressive lending, and within the treasury function were very concerned, thinking, “How on earth will we fund this?”’. They expressed the belief that ‘because of our diminished position, nobody on our side felt they could stand up and say anything’. Informant 4 described the tension existing between the lending and compliance functions by noting that ‘power really lay with those that were on the asset side of things’ and that ‘when those on the risk or compliance side of things tried to raise their concerns, it was like teenagers trying to speak to the adults. They weren’t listened to’.

Weak control systems. Multiple informants suggested that the banks’ pursuit of an aggressive competitive approach prompted them to weaken the control systems and procedures that had traditionally enabled them to monitor their exposure to individual customers and industries. For example, Informant 6 expressed a belief that the banks’ ‘credit controls were weakened for growth’. Informant 18 similarly recalled how ‘the signposts that had previously existed in the banks to raise warning signals were removed’. Some informants suggested that the internal committees responsible for ensuring that the banks’ lending growth was supported by adequate funding sources had often done so only superficially and had operated under the assumption that current market conditions would persist for the foreseeable future. Instances in which customers missed payments on outstanding loans and broke covenant clauses were met with inaction. Particularly serious were the shortcomings in the banks’ management information systems (MIS). Multiple informants suggested that the banks’ MIS were so unsophisticated that they were unable to assess their exposure in terms of specific borrowers and/or sectors of the economy. This was evidenced, for instance, in Informant 11’s comment that the banks ‘didn’t really have any information on where the exposure existed [as] management information systems hadn’t been given huge priority’. They also suggested that ‘you couldn’t systematically capture a view of what was going on’.

The inadequacies of the internal control systems and structures varied greatly between banks. Multiple informants suggested that modifications of internal control systems, violations of standard procedures and inadequacies of information systems had been pervasive across the industry. However, these and other informants also observed that the most aggressive banks were those where these violations were more troublesome. For example, Informant 16 recalled that ‘it was open knowledge that there was no corporate governance whatsoever going on in Bank 5’. Informant 25 suggested that ‘anyone could have spent a day in that bank [Bank 1] and would have been able to see how there was a lack of any type of governance’. These cases had attracted the attention of the regulatory authorities, which conducted repeated inspections in one of the banks in the years prior to the crisis, concluding that ‘there were failings at every level in the organization, from the chief executive and the board to staff on the ground’ (Honohan, 2010: 73). Despite the bank's assurances, however, these interactions did not have a significant impact on its operations.

Several informants suggested that these deficiencies had emerged owing to the focus on increasing lending volumes quickly that characterized the new competitive approach. Informant 1, for instance, recalled that 'there were lax procedures regarding security for loans; it was a case of "get it done now, worry about all that later"'. Informant 7 recalled that 'there was pressure to do business really quickly' and 'loans would have been given out with only a one-page document . . . which was signed on the day'. Informant 18 described how existing structures and loan-approval processes were altered to facilitate fast decisions. Informant 24 recalled that 'the same detail as before wasn't there any-more' and that 'people were presenting cases that were only three-quarters done because there was such a hurry'.

Discussion and conclusion

In this article, we have examined the processes by which cognitive frames that are shared among industry rivals challenge their ability to act on impending threats. Our analysis of the banking industry in Ireland showed that rival organizations within the industry held a shared view of their environment according to which competition was threatening their market share and survival as independent entities while general market conditions were fundamentally benign. This frame was reinforced owing to social comparisons among rivals that spurred imitation and led to a reconfiguration of internal political relationships and control processes and systems, dulling organizational ability to act on emerging threats.

Theoretical implications

Our study extends prior organizational crises and sensemaking research (e.g. Snook, 2000; Turner, 1976; Turner and Pidgeon, 1997; Vaughan, 1996; Weick, 1988, 1993, 2010), which drew attention to the role played by organizations' cognitive and political factors in shaping their ability to act on emerging threats. It did so by highlighting how similar dynamics are at play within an industry whereby the presence of a shared frame of the environment in which organizations operate can impede their ability to act on emerging threats and create the preconditions for collective failure. While shared frames may emerge and solidify owing to interactions among individuals within an organization as well as among organizations in an industry (Bogner and Barr, 2000; Porac et al., 2011), prior studies have focused primarily on the former by studying groups or subunits (Cornelissen et al., 2014; Snook, 2000; Vaughan, 1996; Weick, 1988, 1993). Our study complements them by exploring the latter. Our examination of the cognitive and political processes through which a shared frame solidifies within an industry, blinding organizations to emerging threats, extends a handful of studies (e.g. Porac et al., 1989, 1995, 2011) that have suggested that industry members may share a narrow view of the circumstances that impacts their actions on impending threats but have not directly examined the processes through which this influence is exerted. In doing so, we have begun addressing recent calls for future studies to develop an 'explanation for why firms get entrapped in their locally enacted market spaces' that recognizes the role of cognitive and power processes at play in industry settings (Porac et al., 2011: 654). Further longitudinal studies could shed additional light on the processes by which a shared frame emerges and solidifies within an industry, influencing organizational actions.

Additionally, the finding that a shared cognitive frame can be perpetuated, owing in part to market participants' and influential observers' praise for one or a few organizations in an industry (along with the considerable material and symbolic rewards attached to it) that magnifies social comparisons among them and leads to imitation, extends prior works that have identified geographical proximity, strategic similarities and reliance on similar sources of information as key drivers of the persistence of a narrow view of an industry's condition (Johnson and Hoopes, 2003; Porac et al., 1989, 1995, 2011). We propose that social comparisons focus organizations' attention on their rivals, propelling them to 'try unreasonably hard to achieve victory' in competitive interactions (Chen and Miller, 2012: 155) and inducing a state of 'competitive myopia' (Porac et al., 2011) whereby they engage in and justify risky behaviours that will ultimately lead to failure. Our evidence on the detrimental effects of focusing one's attention on industry rivals and imitating their practices also has implications for prior research on vicarious learning, which has noted that organizations' imitation of the practices endorsed by peers does not necessarily have positive implications but may also propagate beliefs and practices that are harmful to their prospects in the long term (Haunschild and Miner, 1997; Kim and Miner, 2007; Levinthal and March, 1993), particularly when imitation is motivated by a perceived performance deficit (Baum and Dahlin, 2007). Our study makes its contribution by more explicitly conceptualizing the linkages between organizations' cognitive frames, behaviour and outcomes. Our evidence suggests that the banks not only imitated each other's practices but also held a shared view of their environment, which gave rise to a 'cognitive community' (Kaplan, 2011) and influenced their behaviour, ultimately leading to their failure. Our finding that social comparisons among rival organizations can blind them to emerging threats also complements prior crisis research that has shown that perceived pressures can lead organizations to cut corners, prioritize pressures for efficiency and profits over safety, and overlook information that contradicts the chosen course of action (e.g. Snook, 2000; Turner, 1976; Vaughan, 1996, 1997).

Our study also highlights how the enactment of a shared frame by individual organizations through actions that reinforce the influence of those who hold such a frame contributes to its solidification and further impairs their ability to engage in more 'adaptive' sensemaking of their circumstances (Maitlis and Sonenshein, 2010). This insight contributes to research on the political underpinnings of organizational responses to emerging threats, an area of enquiry that has remained less developed than that on cognitive underpinnings (Maitlis and Sonenshein, 2010; Weick, 2010) and that has been studied independently of it (exceptions include Kaplan, 2008). Our study shows that not only do power relationships within organizations bring about contests over interpretations that influence their assessment of emerging threats, as posited by prior studies (Maitlis and Sonenshein, 2010; Pidgeon and O'Leary, 2000; Turner, 1976; Turner and Pidgeon, 1997; Weick, 2010), but prior interpretations also shape power relationships and thus contests over interpretation. Our study also complements Kaplan's (2008) evidence on the micro-processes through which politically skilled organizational insiders use interpretation voids as opportunities to mobilize support for their own interpretation and alter existing power dynamics by drawing attention to the macro-processes through which organizations' enactment of a cognitive frame that is predominant within their industry can give greater status and voice to those whose views are consistent with it. The focus of our study on the influence of cognitive and political processes on organizations' framing of emerging threats also complements that of Kaplan's (2008) study, which focuses on the influence of cognitive and political processes on organizations' framing of emerging opportunities (technology strategy initiatives). Future studies should flesh out the processes through which the enactment of a cognitive frame and internal politics recursively shape one another and influence organizational outcomes.

Our study further complements prior insights on the role of structural impediments to the flow of information within organizations such as rigid hierarchies, extent of decentralization and specialization and power relationships and of shortcomings in the structures and processes that coordinate attention to emerging cues and facilitate communication among members as a factor contributing to organizational failure to act on emerging threats (Barton et al., 2015; Pidgeon and O'Leary, 2000; Rerup, 2009; Turner, 1976, 1994; Vaughan, 1996; Weick, 1988). Whereas prior studies have mainly focused on the role played by impediments to the formation of a shared understanding of what is going on in the environment where they operate in worsening emerging crises, we highlight the constraints imposed by a shared interpretation of a situation – especially when it is taken for granted. Our study provides texture to prior studies by showing how frames are translated into organizational decisions, including on how information from the environment is collected and interpreted, which may make acting on emerging cues difficult or impossible.

Finally, our evidence that a shared and narrow view of their environment had emerged and solidified among banks, blinding them to the threats of changed market conditions, allows us to augment the literature on financial and banking crises by offering an explanation for the onset of these crises that emphasizes individuals' cognitions and attention. This explanation complements those offered by most prior research that has, thus far, focused primarily on the role played by macro-level factors such as the emergence of an institutional logic that favoured a light-touch regulation of the financial market (e.g. Lounsbury and Hirsch, 2010; Motherway et al., 2016) and micro-level factors such as the greed of individuals within organizations (e.g. Alvesson and Spicer, 2012) in creating the preconditions for financial and banking crises. Through its focus on the dynamics at play within the banking industry through which the shared cognitive frame of market support for the banks' aggressive competitive approach is perpetuated, we add to the explanation developed in MacKenzie's (2011) study, which focused on the cognitive and structural factors that weakened the ability of market participants (e.g. credit rating agencies) to evaluate complex financial instruments such as asset-based securities collateralized debt obligations. We believe that this research has brought further nuance to our understanding of the social processes underlying the emergence of financial crises.

Limitations and suggestions for future research

While our decision to study the recent banking crisis in Ireland allowed us to examine the processes by which the solidification of a shared cognitive frame among industry members impeded their interpretation of emerging environmental threats, it is likely that the presence of a 'cognitive community' within the banking industry that was conducive to the perpetuation of a shared cognitive frame was facilitated by the small size of the country and the close geographical proximity among the various organizations in the industry. It would thus be interesting to explore how the processes underpinning the reinforcement of a shared schema would work in larger countries such as the United States, where more banks and bank branches exist and where the geographical distances among them are greater. Indeed, we can reasonably expect that social comparison processes among organizations could be at play in these contexts as well, facilitating reciprocal imitation and helping to consolidate their views of the environment, albeit at a more localized level, such as between banks located within a given county or state. It would also be fruitful to explore how shared cognitive frames emerge among rival organizations in these contexts and become reinforced over time through longitudinal qualitative case studies.

On a related note, it is also possible that industries where the intensity of competition and pace of change are more pronounced (Bogner and Barr, 2000; D'Aveni, 1994), such as financial services and personal computers, are particularly conducive to the emergence and perpetuation of shared cognitive frames by facilitating a focus of organizational attention on the competitive moves initiated by one's rivals. Thus, future studies should extend our evidence by adopting a cross-industry approach to further our understanding of the impact of competitive dynamics and social comparisons on organizations' interpretative processes. Additionally, one could reasonably argue that certain market participants such as auditors, financial analysts and rating agencies may voluntarily or involuntarily magnify the impact of social comparison processes among industry rivals by offering commentaries on their competitive moves and their relative performance and thus facilitate the perpetuation of a shared cognitive frame within an industry, which can impact the processes by which its members make sense of their environment. For example, they could set unreasonable expectations for growth, performance or cost-cutting (Vaughan, 1996; Weick, 1988) and endorse organizations that deliver on these expectations even though doing so reduces their investment in safety and alertness to emerging threats. While our study has hinted at market participants' role in exacerbating social comparisons among industry rivals, future studies could more explicitly examine how these influential third parties shape organizations' interpretative processes, particularly in the face of threats.

Additionally, while our research context enabled us to examine how social comparisons arising in the context of competitive interactions among industry rivals reinforced an existing frame that dulled emerging threats and prompted an industry-wide crisis, it did not allow us to ascertain how the different emotions that can arise owing to social comparisons among industry peers (e.g. fear, envy) may impact their interpretative processes. It would thus be of interest to explore the role of emotions in shaping interpretative processes in times of crisis (also see Maitlis and Sonenshein, 2010; Weick, 2010). One particularly promising area of future research is that related to the influence of emotional contagion, which is the transfer of emotions among members of a group. While prior research has drawn attention to the benefits of positive emotional contagion in the aftermath of a crisis to promote renewal (Maitlis and Sonenshein, 2010), the role of negative emotional contagion as a possible contributor to the emergence of distortions in organizations' interpretation of their environment and of organizational crises and disasters more generally has received scant conceptual and empirical attention (Cornelissen et al., 2014 is an exception).

Finally, while our study found evidence to suggest that the enactment of a cognitive frame can have a substantial impact on an organization's social structure, it did not explicitly examine the processes through which organizational structures are shaped by prior episodes where individuals attempted to make sense of their circumstances and then recursively shape future sensemaking episodes as the situation evolved and new information surfaced by validating existing interpretations. Future conceptual works could integrate processes of materiality through a reconfiguration of organizational structures, communication and commitment to frames to create a more complete understanding of sensemaking processes in organizations. Additionally, while our analysis found suggested that similar pressures for performance were at play and had a comparable effect across the entire industry, the qualitative nature of our inquiry and our focus on the processes by which the competitive dynamics within an industry impact organizational sensemaking and response to emerging threats implies that we did not examine how differences in the structural features of the various banks such as size and complexity may have contributed to validating a shared view of their circumstances. This issue is left for future research.

Acknowledgements

We gratefully acknowledge friendly feedback from Amit Nigam, Bob Hinings, Chet Miller, Mike Lounsbury and Royston Greenwood on earlier versions. An earlier version of this article was one of five finalists for a Carolyn Dexter Award at the 2012 Academy of Management Conference.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

References

Alvesson M and Karreman D (2007) Constructing mystery: Empirical matters in theory development. *Academy of Management Review* 32(4): 1265–1281.

Alvesson M and Spicer A (2012) A stupidity-based theory of organizations. *Journal of Management Studies* 49(7): 1194–1220.

Anglo Irish Bank Annual Report (2006) *Anglo Irish Bank: 2005–2006, Annual Report*. Dublin, Ireland.

Anglo Irish Bank Annual Report (2007) *Anglo Irish Bank, 2006–2007, Annual Report*. Dublin, Ireland.

Aughney J (2006) The banker. *Irish Independent*, 29 December.

Barton MA, Sutcliffe KM, Vogus TJ and DeWitt T (2015) Performing under uncertainty: Contextualized engagement in wildland firefighting. *Journal of Contingencies and Crisis Management* 23(2): 74–83.

Baum JA and Dahlin KB (2007) Aspiration performance and railroads' patterns of learning from train wrecks and crashes. *Organization Science* 18(3): 368–385.

Benner M and Tripsas M (2012) The influence of prior industry affiliation on framing in nascent industries: The evolution of digital cameras. *Strategic Management Journal* 33(3): 277–302.

Bogner W and Barr P (2000) Making sense in hypercompetitive environments: A cognitive explanation for the persistence of high velocity competition. *Organization Science* 11(2): 212–226.

Brady N (2003) Banks go on a lending spree; the economy is slowing and house prices levelling off, yet mortgage lending is growing at breakneck speed, with possible dire consequences for borrowers, warns the Central Bank. *Sunday Tribune*, 29 June.

Brady N (2008) Chief Executive BoI Soden is focused on deal with 16,900 UK post offices. *Sunday Tribune*, 28 March.

Baum JA and Dahlin KB (2007) Aspiration performance and railroads' patterns of learning from train wrecks and crashes. *Organization Science* 18(3): 368–385.

Carey (2005) A well-earned bank holiday; On his last day at work, the Anglo boss reflects on his successes ... and failures. *Sunday Tribune*, 30 January.

Carswell S (2008) Age and the old wisdom. *Irish Times*, 6 June.

Catino M (2013) *Organizational Myopia*. Cambridge: Cambridge University Press.

Chen M-J and Miller D (2012) Competitive dynamics: Themes, trends, and a prospective research platform. *Academy of Management Annals* 6(1): 135–210.

Cornelissen JP and Werner MD (2014) Putting framing in perspective: A review of framing and frame analysis across the management and organizational literature. *Academy of Management Annals* 8(1): 181–235.

Cornelissen JP, Mantere S and Vaara E (2014) The contraction of meaning: The combined effect of communication, emotions, and materiality on sensemaking in the Stockwell shooting. *Journal of Management Studies* 51(5): 699–736.

D'Aveni R (1994) *Hypercompetition: Managing the Dynamics of Strategic Manoeuvring*. New York: Free Press.

Eisenhardt KM and Graebner ME (2007) Theory building from cases: Opportunities and challenges. *Academy of Management Journal* 50(1): 25–32.

Farrell (2005) Banks in Ireland are highly competitive. *Irish Times*, 1 February.

Fotaki M and Hyde P (2015) Organizational blind spots: Splitting, blame and idealization in the National Health Service. *Human Relations* 68(3): 441–462.

Gephart Jr RP (1984) Making sense of organizationally based environmental disasters. *Journal of Management* 10(2): 205–225.

Gioia DA and Manz CA (1985) Linking cognition and behaviour: A script processing interpretation of vicarious learning. *Academy of Management Review* 10(3): 527–539.

Haunschild P and Miner A (1997) Modes of interorganizational imitation: The effects of outcome salience and uncertainty. *Administrative Science Quarterly* 42(3): 472–500.

Honohan P (2010) The Irish banking crisis regulatory and financial stability policy 2003–2008. Dublin: Ministry of Finance. Available at: http://www.bankinginquiry.gov.ie/The%20Irish%20Banking%20Crisis%20Regulatory%20and%20Financial%20Stability%20Policy%202003-2008.pdf

Irish Examiner (2008) Government will get to grips with financial crisis? Don't bank on it. *Irish Examiner*, 25 November.

Irish Independent (2007a) Record year for AIB on home front, says Forde. *Irish Independent*, 8 November.

Irish Independent (2007b) Concern as home repossessions double. *Irish Independent*, 24 November.

Irish Independent (2007c) 'Scapegoat' banker claims boss approved solicitor loan. *Irish Independent*, 24 November.

Irish Nationwide Annual Report (2003) *Irish Nationwide: 2002-2003, Annual Report*. Dublin, Ireland.

Irish Nationwide Annual Report (2004) *Irish Nationwide, 2003-2004, Annual Report*. Dublin, Ireland.

Isabella L (1990) Evolving interpretations as a change unfolds: How managers construe key

organizational events. *Academy of Management Journal* 33(1): 7–41.
Jick TD (1979) Mixing qualitative and quantitative methods: Triangulation in action. *Administrative Science Quarterly* 24(4): 602–611.
Johnson DR and Hoopes DG (2003) Managerial cognition, sunk costs, and the evolution of industry structure. *Strategic Management Journal* 24(10): 1057–1068.
Kaplan S (2008) Framing contests: Strategy making under uncertainty. *Organization Science* 19(5): 729–752.
Kaplan S (2011) Research in cognition and strategy: Reflections on two decades of progress and a look to the future. *Journal of Management Studies* 48(3): 665–695.
Kayes DC (2004) The 1996 Mount Everest climbing disaster: The breakdown of learning in teams. *Human Relations* 57(10): 1263–1284.
Kim J and Miner A (2007) Vicarious learning from the failures and near-failures of others: Evidence from the U.S. commercial banking industry. *Academy of Management Journal* 50(2): 687–714.
King B and Soule S (2007) Social movements as extra-institutional entrepreneurs: The effect of protests on stock price returns. *Administrative Science Quarterly* 52(3): 413–442.
Levinthal D and March J (1993) The myopia of learning. *Strategic Management Journal* 14(2): 95–112.
Locke K (2001) *Grounded Theory in Management Research*. Thousand Oaks, CA: SAGE.
Lounsbury M and Hirsch PM (eds) (2010) *Markets on Trial: The Economic Sociology of the US Financial Crisis*. Bingley: Emerald Press.
McCaffrey U (2004) Anglo Irish director share placement dominates Settlement Day. *Irish Times*, 11 February.
McCaffrey U (2005) Debt levels exceed incomes for the first time. *Irish Times*, 2 February.
McCracken G (1998) *The Long Interview: Qualitative Research Methods*. Thousand Oaks, CA: SAGE.
MacKenzie D (2011) The credit crisis as a problem in the sociology of knowledge. *American Journal of Sociology* 116(6): 1778–1841.
Madsen PM and Desai V (2010) Failing to learn? The effects of failure and success on organizational learning in the global orbital launch vehicle industry. *Academy of Management Journal* 53(3): 451–476.
Maitlis S (2005) The social processes of organizational sensemaking. *Academy of Management Journal* 48: 21–49.
Maitlis S and Christenson M (2014) Sensemaking in organizations: Taking stock and moving forward. *Academy of Managing Annals* 8(1): 57–125.
Maitlis S and Lawrence T (2007) Triggers and enablers of sensegiving in organizations. *Academy of Management Journal* 50(1): 57–84.
Maitlis S and Sonenshein S (2010) Sensemaking in crisis and change: Inspiration and insights from Weick (1988) *Journal of Management Studies* 47(3): 551–580.
Martin de Holan P and Phillips N (2004) Remembrance of things past? The dynamics of organizational forgetting. *Management Science* 50(11): 1603–1613.
Miles MB and Huberman AM (1994) *Qualitative Data Analysis: An Expanded Source-Book*. London: SAGE.
Motherway D, Pazzaglia F and Sonpar K (2016) Failures in regulator-led deinstitutionalization of questionable business practices. *Journal of Business Ethics*. Epub ahead of print 23 February 2016. DOI: 10.1007/s10551-016-3082-1.
Nag R, Corley K and Gioia D (2007) The intersection of organizational identity, knowledge, and practice: Attempting strategic change via knowledge grafting. *Academy of Management Journal* 50(4): 821–848.
Nyberg P (2011) Misjudging risk: Causes of the systemic banking crisis in Ireland. Ministry of Finance, Dublin. Available at: http://www.bankinginquiry.gov.ie/Documents/Misjuding%20

Risk%20-%20Causes%20of%20the%20Systemic%20Banking%20Crisis%20in%20Ireland.pdf (accessed 8 August 2017).
O'Halloran B (2006) AIB says house-price inflation to ease as growth ebbs. *Irish Times*, 24 October.
Pidgeon N and O'Leary M (2000) Man-made disasters: Why technology and organizations (sometimes) fail. *Safety Science* 34(1): 15–30.
Porac JF, Thomas H and Baden-Fuller C (1989) Competitive groups as cognitive communities: The case of Scottish knitwear manufacturers. *Journal of Management Studies* 26(4): 397–416.
Porac JF, Thomas H and Baden-Fuller C (2011) Competitive groups as cognitive communities: The case of Scottish knitwear manufacturers revisited. *Journal of Management Studies* 48(3): 646–664.
Porac JF, Thomas H, Wilson F, et al. (1995) Rivalry and the industry model of Scottish knitwear producers. *Administrative Science Quarterly* 40(2): 203–227.
Riegling K and Watson M (2010) A preliminary report on the sources of Ireland's banking crisis. Available at: https://www.socialjustice.ie/content/policy-issues/regling-watson-report-preliminary-report-irelands-banking-crisis (accessed 8 August 2017).
Rerup C (2009) Attentional triangulation: Learning from unexpected rare crises. *Organization Science* 20(5): 876–893.
Snook SA (2000) *Friendly Fire: The Accidental Shootdown of U.S. Black Hawks over Northern Iraq*. Princeton, NJ: Princeton University Press.
Staw BM and Hoang H (1995) Sunk costs in the NBA: Why draft order affects playing time and survival in professional basketball. *Administrative Science Quarterly* 40(3): 474–494.
Strauss A and Corbin J (1998) *Grounded Theory in Practice*. Thousand Oaks, CA: SAGE.
Turner BA (1976) The organizational and interorganizational development of disaster. *Administrative Science Quarterly* 21(3): 378–397.
Turner BA (1994) Causes of disaster: Sloppy management. *British Journal of Management* 5(3): 215–219.
Turner BA and Pidgeon NF (1997) *Man-Made Disasters*, Vol.2. Oxford:Butterworth-Heinemann.
Vaughan D (1996) *The Challenger Launch Decision: Risky Technology, Culture, and Deviance at NASA*. Chicago, IL: The University of Chicago Press.
Vaughan D (1997) The trickle-down effect: Policy decisions, risky work, and the 'Challenger' tragedy. *California Management Review* 39(2): 80–102.
Webb N (2007) Bringing just a little rivalry to Ulster. *Sunday Independent*, 11 March.
Weick KE (1988) Enacted sensemaking in crisis situations. *Journal of Management Studies* 25(4): 305–317.
Weick KE (1993) The collapse of sensemaking in organizations: The Mann Gulch disaster. *Administrative Science Quarterly* 38(4): 628–652.
Weick KE (2010) Reflections on enacted sensemaking in the Bhopal disaster. *Journal of Management Studies* 47(3): 537–550.
Weick KE and Sutcliffe KM (2003) *Managing the Unexpected: Assuring High Performance in an Age of Complexity*. San Francisco, CA: Jossey-Bass.
Weick KE, Sutcliffe KM and Obstfeld D (2005) Organizing and the process of sensemaking. *Organization Science* 16(4): 409–421.
Yin RK (2009) *Case Study Research: Design and Methods*. Thousand Oaks, CA: SAGE.

Federica Pazzaglia is Professor of Management at University College Dublin, Ireland. Her research examines topics related to collaboration and conflict within and between organizations, behavioural approaches to strategy, corporate governance, and social and institutional entrepreneurship. Her research has been accepted for publication in journals such as *Journal of Management, Journal* *of Management Studies, Human Relations, Human Resource Management, Journal of Business Ethics* and *Sloan Management Review*. [Email: federica.pazzaglia@ucd.ie]

Maeve Farrell is a talent strategy specialist currently working with Accenture Strategy in Dublin, Ireland. Maeve's passion is supporting organizations to become more successful by maximizing the impact of their workforce in an era being redefined by digital disruption. Maeve has worked internationally with clients across multiple industries to help them better attract, develop and retain talent and to develop organizations that get the best out of their people. [Email: maeve.farrell@accenture.com]

Karan Sonpar is Professor of Management at University College Dublin, Ireland. His research and teaching interests are primarily in the areas of behavioural approaches to strategy, the exercise of leadership discretion in the face of competing institutional and stakeholder demands, and managing talent. His prior works have been accepted for publication in journals such as *Journal of International Business Studies, Journal of Management, Journal of Management Studies, Human Relations, Organisational Research Methods* and *Sloan Management Review*. [Email: karan.sonpar@ucd.ie]

Pablo Martin de Holan is the Dean (founding) of Academic Affairs of MBSC in the Kingdom of Saudi Arabia, and the co-Editor-in-Chief of the *Journal of Management Inquiry*. His prior works have been published in *Management Science, Journal of Management Studies, Sloan Management Review, Industrial and Corporate Change*, among others. [Email: pmdeh@mbsc.edu.sa]