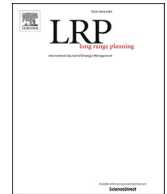




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The pressure cooker: When crisis stimulates explorative business model change intentions

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ABSTRACT

How do firms respond to critical threats, such as regulatory turmoils or disruptive innovations? After more than three decades of contradicting theoretical arguments and inconsistent empirical results, this question remains unresolved. One view argues for and finds evidence for amplified propensity to engage in change when organization members perceive critical threat. The other view supports the threat-rigidity phenomenon, reinforcing resistance to change through a focus on habitual practices and routines. To resolve this puzzle, we draw on the multi-dimensional framework of ‘crisis’ strategic issues processing, supplemented with the behavioral decision making perspective. In particular, we investigate the conditions of emergence of radical (explorative) business model change intentions within organizations in response to major threats. The resulting model suggests that cognitive moderators – perceived predictability and time pressure – lead to highly divergent results of critical threat perception, such that low predictability and high time pressure attenuate the threat-induced explorative business model change intentions. The model is tested in two empirical contexts, real estate brokerage and higher education, finding strong empirical support.

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Introduction

How will companies respond to a change in a competitive environment that threatens their survival? While this question has challenged decision-makers and scholars for decades, the interest level has recently intensified as more markets become globally competitive and as additional industries face disruption from technological advances, innovative business models, or shifts in regulatory environment. At the heart of the issue is the question of whether managers are more apt to engage in change in order to escape from, adapt to, or even thrive on disruptive opportunities embedded in crises. Or do they stubbornly stick with the old solutions – products, routines, and business models – avoiding change and trying to rigidly ignore crisis in the hope of a return to prior stability? The management literature is far from consensus on this issue (Sarkar and Osiyevskyy, 2017). Some researchers argue for increased likelihood of innovative actions and organizational change (e.g., Bowman, 1982; Bromiley and Wiseman, 1989; Gooding et al., 1996; Miller and Chen, 2004), while others suggest rigidity and risk-aversion (e.g., Staw et al., 1981; Schendel et al., 1976; Laughhunn et al., 1980; Iyer and Miller, 2008; Shimizu, 2007). The polar views of this paradox can be summarized as “necessity as the mother of invention” versus “necessity as the mother of rigidity” (e.g., McKinley, 1993). The management and organization studies literature has struggled with this paradox for over two decades,

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with no definitive resolution at hand (e.g., Nelson, 2011; Hu et al., 2011; Latham and Braun, 2009; Mone et al., 1998; McKinley, 1993; March and Shapira, 1992; Singh, 1986). Indeed, “while few would dispute the general assertion that adversity provokes adjustment in systems, the precise dynamics and the locus of the adjustment process are much harder to specify” (Nelson, 2011, p.408).

In its most severe form, an adversity represents a ‘crisis’ strategic issue, characterized by three primary characteristics (dimensions): it is (1) of critical importance to firm survival, (2) presented under time pressure for response, and (3) contextualized within uncertain environments that lead to unfamiliar and ill-defined outcomes (Dutton, 1986). These three crisis dimensions represent managerial perceptions, and as such may serve as cognitive antecedents to the formation of managerial intentions and actions (Ajzen, 1991; Sarkar and Osiyevskyy, 2017). Dutton’s (1986) framework (subsequently developed by Julian and Ofori-Dankwa (2008) introducing a motivational theory to it) provided the means of assessing and addressing crisis strategic issues, grounded in a comparison of issue-processing differences adopted by managers and firms when addressing crisis versus non-crisis strategic issues. Alas, despite its usefulness, the Dutton’s (1986) crisis strategic issues processing framework did not get sufficient attention in the literature on organizational responses to crises, despite explicit calls for more research adopting this perspective (e.g., James et al., 2011).

Therefore, in this paper we focus on the three core dimensions of crisis strategic issues (importance, urgency and uncertainty), suggesting that if united in a single model, the interaction effects of the manager’s perception of these dimensions can, to a large extent, predict the outcome (intention to change versus rigidity) of strategic decision making by managers in response to crisis stimuli. In order to unite the above-listed dimensions of the crisis strategic issues framework, we supplement Dutton’s (1986) ideas with the insights of the established theories in behavioral decision-making: prospect theory (the loss/gains framing effects: Kahneman and Tversky, 1979) and the threat rigidity thesis (Staw et al., 1981). By this means, we theoretically address the following research question of the study: when does a crisis lead to formation of change intentions among managers of threatened organizations? To be more specific, we concentrate on the conditions resulting in emergence of threat-induced explorative business model change intention – decision to substantively alter the firm’s approach to value creation and appropriation. As such, within the context of this study a radical organizational innovative action is exemplified by the explorative business model change, implying “offering different products or services and potentially reengineering the existing business processes and rethinking the way value is created and distributed by the firm” (Osiyevskyy and Dewald, 2015a, p.60), as opposed to making minor business model adjustments along the established trajectory (exploitative business model change) or complete resistance to any change.

The developed theoretical framework is then empirically tested using two independent samples collected in two very different industry settings (real estate brokerage firms threatened by discounted brokerage models, and higher education organizations facing a threat of on-line education models). Although the theoretical reasoning presented in this paper is not tied to a particular type of external threat, in the empirical part we focus specifically on processing of crisis strategic issues introduced by emergence of new, disruptive business models within the established industries. This is a question of significant concern and timely importance to business leaders and incumbent firms, as disruptive business models, often the outcome of technological advances, routinely cause upheaval in industries as diverse as airlines, retail sales, newspapers and media, or home entertainment. Recent advances in 3D printing, nanotechnology, genome research, machine learning, automated vehicles, etc., present the prospect of a future that will have more disruption and more crisis strategic issues for incumbent managers to address. In this sense, we complement, with the issues interpretation perspective, the works on incumbents’ responses to crises caused by disruptive business models emerging in their industries (e.g., Gilbert (2005) with respect to the reluctance of incumbent firms to invest in disruptive business models, and Kapoor and Klueter (2015) with respect to firm ineptitude to implement disruptive business model changes).

This paper provides two specific contributions. First, following the call for fine-grained analysis of substantive contingency factors that affect organizational actions in crisis situations (Sarkar and Osiyevskyy, 2017), we unite both ‘change’ and ‘rigidity’ views in a single coherent moderation-based theoretical model. Our framework is grounded in crisis strategic issues processing and managerial decision making theories, helping in predicting the formation of explorative business model change intentions. Second, the comprehensive review by Wirtz et al. (2016) identified business model innovation, change and evolution as one of the essential research foci in this field. Within this research stream we intend to contribute to the still under-developed yet important topic of the antecedents of business mode change (Foss and Saebi, 2017; Zott et al., 2011). In particular, our findings stress the role of cognitive antecedents of business model change intentions, namely, perceived threat in the external environment and its interaction with perceived time pressure and perceived predictability.

Theoretical background

Dimensions of crisis strategic issues

A crisis implies “a perception that an individual or set of individuals faces a potentially negative outcome unless some type of corrective action is taken” (Dutton, 1986, p. 502). Dutton argues that this perception is drawn from three distinct dimensions within cognitive framing of a particular business issue: (1) importance, (2) immediacy, and (3) uncertainty.

The dimension of importance reflects the perceived magnitude of negative outcomes for the organization potentially caused by the focal issue, if a corrective action is not taken. In further studies, this factor was refined to reflect the degree to which the issue is framed as a threat to organization (e.g., Chattopadhyay et al., 2001; Julian and Ofori-Dankwa, 2008); this

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