



Contents lists available at ScienceDirect

European Management Journal

journal homepage: www.elsevier.com/locate/emj

Organizational change and rigidity during crisis: A review of the paradox

Soumodip Sarkar^a, Oleksiy Osiyevskyy^{b, c, *}

^a CEFAE-UE, Department of Management, University of Évora, Palácio Do Vimioso (Gab. 224), Largo Marquês de Marialva, 8, 7000-809 Évora, Portugal

^b Haskayne School of Business, University of Calgary, 2500 University Drive N.W., Calgary, Alberta T2N 1N4, Canada

^c D'Amore-McKim School of Business, Northeastern University, 360 Huntington Avenue, Boston, MA 02115, USA

ARTICLE INFO

Article history:

Received 4 February 2016

Received in revised form

26 February 2017

Accepted 15 March 2017

Available online xxx

Keywords:

Organizational crisis

Organizational cognition

Decision-making

Decision implementation

ABSTRACT

When and how do existential crises, threatening business continuity, stimulate organizational change or cause the opposite—rigid preservation of established business practices? This question remains unresolved, despite three decades of deliberations in the academic literature, which still yields contradicting theoretical arguments and empirical results. One view argues and finds support for the hypothesis that posits an amplified propensity to change within threatened organizations. The other view supports the threat-rigidity thesis, implying reinforcing habitual practices. In this paper, we provide a novel holistic typology of organizational crises and then review the literature on the topic, summarizing existing insights within a theoretical framework comprising three interrelated sequential processes: organizational cognition, decision-making, and implementation. We analyze the gaps in the field's knowledge within each process and propose a research agenda to address these voids.

© 2017 Elsevier Ltd. All rights reserved.

1. Introduction

The year 2015 should have been a crowning one for Volkswagen. In June, the company surpassed Toyota to become the largest automaker in the world and was well ahead of an ambitious plan laid out by the company's CEO, Martin Winterkorn, to become "the world's most profitable, fascinating and sustainable automobile manufacturer".¹ All that came crashing down on September 18, when the United States Environmental Protection Agency (EPA) issued a notice of a violation of the Clean Air Act to Volkswagen, alleging that model year 2009–2015 Volkswagen (and Audi) diesel cars equipped with 2.0 L engines—approximately 499,000 vehicles—contained software designed to circumvent EPA emissions standards. The number of "cheat vehicles" was later revealed to be 11 million worldwide, plunging the automaker's market value and enveloping the company in a crisis. A company long proud of its engineering talent, and ambitious in its global conquest, was in the

throes of a crisis, and as noted by an observer, "At best its reputation was in tatters, at worst its continued existence was in question."²

In 2012, the "Kodak moment" came in an unfortunate form for the 131-year-old Eastman Kodak Company, ultimately resulting in its filing for bankruptcy. The progenitor of new technologies imitated by countless newcomers, Kodak found itself in a full-blown crisis, where complacency, inertia, and, often, poorly conceived strategies, all contributed to the downfall of the behemoth.

These two events, one momentous for external observers and most managers (Volkswagen) and one slowly emerging yet culminating in a major disaster (Kodak), exemplify the modern, frequently observed phenomena of organizational crises. This leads us to a tantalizing question: how does the process of a firm's response to a crisis take shape? How do companies respond to crises—of either external or internal origin (e.g., an external shock, a steep drop in market share, or firm's own inability to respond to emerging disruption)—severe enough to threaten their survival? Up to this day, these questions have not been holistically analyzed in the management literature, particularly taking into account that

* Corresponding author. Haskayne School of Business, University of Calgary, 2500 University Drive N.W., Calgary, Alberta T2N 1N4, Canada.

E-mail addresses: ssarkar@uevora.pt (S. Sarkar), o.osiyevskyy@neu.edu (O. Osiyevskyy).

¹ Source: Fortune, Sep/23/2015, <http://fortune.com/2015/09/23/volkswagen-martin-winterkorn-golf-emissions/>.

² C. Rhodes, "Volkswagen outrage shows limits of corporate power" (Sep/29/2015), <http://theconversation.com/volkswagen-outrage-shows-limits-of-corporate-power-48302>.

crises are events disrupting an organization's developmental trajectory at a specific time and place (Maitlis & Sonenshein, 2010; Pearson & Clair, 1998).

Getting a handle on answers to the above questions has attained an even greater urgency as markets become more globally integrated and as additional industries face disruption from technological advances, innovative business models, or shifts in regulatory environment from any corner of the globe. Before the rise of globalization, scanning the environment meant focusing on regional contenders and sources of potential competition. In contrast, the entrepreneurial landscape of today can present new challenges to firms from unexpected quarters. When that occurs, do organizations in crisis adjust, changing the established methods of doing business in an attempt to escape from, adapt to, or even thrive on new adversarial circumstances? Or do they choose to stick with the old, known, and tried solutions—products, business models, routines, and policies? In other words, do organizations in crises walk down the trodden path, avoiding any change and trying to ignore the adversity, in the hope that the situation will turn by itself? There is little agreement in the literature on this question. Some organizational researchers embrace the position that a crisis stimulates organizational adaptive change (e.g., Bowman, 1982; Bromiley & Wiseman, 1989; Gooding, Goel, & Wiseman, 1996; Mayhew, 1979; Miller & Chen, 2004), while others suggest rigidity and defiant resistance (e.g., Dorsman & Buckley, 2001; Iyer & Miller, 2008; Laughhunn, Payne, & Crum, 1980; Schendel, Patton, & Riggs, 1976; Shimizu, 2007; Staw, Sandelands, & Dutton, 1981).

Organizational crises provoke significant disruption in an organization's activities (Maitlis & Sonenshein, 2010), manifested in specific ways, such as a dramatic fall in market value or bankruptcy. However, the crisis literature has to date concentrated overwhelmingly on extreme or “deviant” events (James, Wooten, & Dushek, 2011) or environmental jolts, including disasters and other abrupt shocks, overlooking events with underlying roots going further back in time, yet whose outcome can be even more important and dramatic than those of sudden extreme events, such as ignoring the long-term demographic trends that slowly erode the company's customer base. Moreover, crises can be triggered not only by unpredictable, exogenous, and extreme negative events (e.g., earthquakes, terrorist attacks, executive malfeasance, and environmental contamination) but also by endogenous factors, hinging upon vulnerabilities at different levels of the organization (Pauchant & Mitroff, 1992; Roux-Dufort, 2009) that had been left unaddressed by the management.

The nature and peculiarities of organizational responses to crises remain poorly understood in the management literature, which has been rightly criticized for being fragmented by a myriad of disciplinary approaches (James et al., 2011); unfortunately, this fragmentation has kept crisis research on the periphery of mainstream management theory (James et al., 2011; Pearson & Clair, 1998). While crisis management remains a relatively new field in early stages of development, the varied disciplinary voices and diverse issues and audiences have created a veritable “Tower of Babel” effect (Shrivastava, 1993, p. 33), hindering further development of the field (Pearson & Clair, 1998; Pearson & Mitroff, 1993). Given this fragmented and interdisciplinary nature of the emerging literature, scholarship in the field would benefit from a theoretical refinement and integration.

Another reason for the current lack of understanding of organizational responses to crises is the proliferation of extreme event reflections (James et al., 2011), with a preference for “monolithic methodological approach characterized by the frequent use of case studies of major industrial disasters” (Roux-Dufort, 2009). This has led to descriptive—rather than theoretical—frameworks (Weick, 1999), generating more knowledge about accidents than

organizations, which is another obstacle in the reconciliation with theories of organizations (Roux-Dufort, 2009). However, the causes of crises not only include the immediate failures triggering a crisis but also “the antecedent conditions that allowed failures to occur” (Shrivastava, 1993, p. 30).

These gaps set the motivation for the present study. To address them, we theoretically scrutinize the following primary research question: when does a crisis stimulate organizational change? Within the context of this paper, the word “change” is used broadly and refers to any alteration of the company's products, services, business model, routines, practices, or policies. Grounding our reasoning in the literature on organizational risk taking and action in times of crisis within broader frameworks of the interpretive view on organizational decision-making (Barr, Stimpert, & Huff, 1992; Daft & Weick, 1984; Dutton & Jackson, 1987) and behavioral theory of the firm (Cyert & March, 1963), we develop a conceptual three-stage framework linking the crisis-causing events with organizational actions through the processes of organizational sensemaking and cognition, decision-making, and decision implementation. The selected theoretical lens is particularly suitable in the contexts theorizing concerns on “how certain events and experiences set in motion processes of decision-making, routine development, or routine selection that change organizational behavior” (Argote & Greve, 2007, p. 338). The intuition behind the developed framework is that prior inquiries within the crisis-rigidity and crisis-change domains neglected essential factors, moderators that influence the decision-making and implementation processes, leading either to adoption of new methods of doing business or reinforcement of the old ones.

By providing a structured crisis-response framework, this paper intends to contribute to the limited but important body of literature on organizational actions in times of crisis, within the broader research streams of behavioral strategy (e.g., Hu, Blettner, & Bettis, 2011; Osiyevskyy & Dewald, 2015).

Dealing with crises becomes a high priority because of the substantial costs, including emotional impact, to organizations when they are not resolved (Dutton, 1986). The need for managers and leaders to be savvy in crisis handling is undeniable, and hence the importance of such handling is not limited to academic scholarship as “business crises are a practical matter; indeed, it would be a disservice for the academic community not to consider the potential relevance and impact of theoretical contributions on practicing managers” (James et al., 2011, p. 457).

2. Crisis: definition and essential characteristics

2.1. Defining a crisis

The word “crisis” has frequently been invoked in the management literature (in conjunction with other emotive terms such as “scandals,” “disasters,” “threats,” or “fiascos”) to denote some ambiguity of cause, effect, and means of resolution and a belief that decisions needed to be made swiftly (Pearson & Clair, 1998). The under-theorization of the concept has led to a struggle in defining the term (Roux-Dufort, 2009), with its meaning yet to be well detailed (Dutton, 1986). Nevertheless, most definitions pivot around the notion of a crisis as a specific, unexpected, and nonroutine event or a series of events that create high levels of uncertainty and threat (Seeger, Sellnow, & Ulmer, 1998).

Particularly, we use the anchor definition of a crisis as “a rare, significant, and public situation that creates highly undesirable outcomes for the firm and its stakeholders and requires immediate corrective action by firm leaders” (James & Wooten, 2010, p. 17). While encompassing other generally accepted dimensions of crisis, this definition explicitly envisages and incorporates a

Download English Version:

<https://daneshyari.com/en/article/7423563>

Download Persian Version:

<https://daneshyari.com/article/7423563>

[Daneshyari.com](https://daneshyari.com)