



The breakdown and rebuilding of learning during organizational crisis, disaster, and failure[☆]



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A CULTURE OF LEARNING ALLOWS IBM TO REFOCUS ITS BUSINESS

In October 2014, IBM Chairman, President, and CEO “Ginni” Rometty told Wall Street stock analysts that IBM’s earning growth would be lower than had been expected. When Rometty reset expectations, she did more than publicly walk back the aggressive growth estimates made by her predecessor. She made a statement about the company’s ability to change direction and learn. A few months later, Rometty would lay out an investment plan for the future of the company. When she stepped back from aggressive growth estimates and charted a new course for the company, Rometty showed the importance of sustaining learning in the face of organizational threats.

Unfortunately, Rometty is one of the few executives to focus on learning in times of potential crisis. Too often, executives ignore bad news and fail to make organizational-wide changes. Instead of making difficult decisions, executives ignore emerging problems. In doing so, they lose the opportunity to address potential threats before they escalate into full-scale breakdowns.

ORGANIZATIONAL BREAKDOWN

Over the past decade, we have been studying organizations like IBM and how they sustain or regain learning in the face of crisis, disaster, and failure. As part of this study, we reviewed official investigations covering breakdowns in government, industry,

and business. We reviewed internal procedures and best practices in a variety of organizations, from commercial airlines to an informal group of avalanche awareness advocates. We also conducted several systematic studies of our own.

We use the term ‘organizational breakdown’ because it best describes the psychological and social processes associated with learning in organizations. Breakdown serves as a catchall term to include crisis, failure, and disaster. Breakdown, in psychological terms, describes a situation in which the normal functioning processes of learning fail to work. A breakdown occurs when organizational routines become fixed. The organization finds it difficult to change, as the situation exceeds the capacity of the organization to contain the unfolding events. When learning breaks down, the organization fails to update its perspective, open itself to new ways of looking at a situation, and appropriately assess risk.

Breakdown of Learning at Lehman Brothers

The global financial meltdown of 2008 helps illustrate what happens with the breakdown of learning. The largest bankruptcy in history unfolded as top executives at Lehman Brothers ignored warning signs, distrusted advisors, and ultimately stood by as inaction fueled the collapse. Systematic, state-of-the-art organizational compensation systems, elaborate training and education programs, the most advanced decision-making technology, and the most sophisticated mathematical models ever devised couldn’t save the company from itself. The stock value plunged from \$42 per share to less than \$2 in the course of months. Billions of dollars of shareholder wealth were lost. Executives behind the organization’s collapse lost millions of personal wealth.

The breakdown at Lehman can be attributed to a variety of causes. Failed communication, financial mismanagement,

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lack of oversight and review, dysfunctional decision-making, and poor leadership, among other factors, contributed to the bankruptcy. Scholarly review suggests a variety of explanations for why organizations like Lehman break down. For example, sociologist Charles Perrow in his book *Normal Accidents* concluded that in complex organizations, where each action is closely linked with a secondary action, breakdowns are inevitable. Similarly, Harold Wilensky's classic book *Organizational Intelligence* identified several ways that organizational learning breaks down due to the mishandling or misinterpretation of information.

The Lehman Brothers breakdown was not inevitable. Executives failed to recognize changing conditions and were unable to update their perspective. The executives leading the company exemplified a situation where the natural process of learning stalls. Even the most sophisticated organizations, it seems, can stumble in the face of breakdown.

Our research on organizational successes like IBM and failures like Lehman Brothers revealed three insights about learning and its breakdown. First, organizational learning spans multiple levels of an organization and involves coordinating complex activity across various functions and stakeholders, building systems that can adapt to change, and sustaining a stance of learning and continuous improvement in the face of setbacks and breakdowns. Learning helps an organization emerge from crisis as it develops the knowledge, skills, and abilities necessary to deal with the breakdown. Second, learning evolves over the course of a crisis in distinct and relatively predictable stages. Successfully navigating each phase requires different learning practices. Third, organizations face four common threats to maintaining learning. This article describes the four stages and the threats to organizational learning while providing examples of organizational breakdown. The learning displayed by Exxon after the Valdez oil spill provides an entry into understanding the importance of sustained learning during breakdown.

Learning from the Exxon Valdez Accident

Too often, learning becomes relevant to an organization only when it faces a catastrophic breakdown like the one that occurred in March of 1989. Off the coast of Alaska, the oil tanker Valdez crashed and spilled an estimated 240,000 barrels of oil into the Alaskan waters, contaminating about 1500 miles of coast. According to the testimony of a witness, the ship's captain, Captain Hazelwood, had retired to his cabin early, leaving the ship's navigation to the second in command. Once the accident occurred, Captain Hazelwood fled the ship. Exxon, the owner and operator of the Valdez, paid an estimated \$100 million in cleanup costs, and its reputation suffered irreparable damage.

Decades later, Rex Tillerson, the CEO of ExxonMobil, explained how the damage to operations, reputation, and perceived integrity led the company to take action. In the wake of the Valdez accident, Exxon implemented comprehensive, systemwide learning initiatives to anticipate, prevent, and respond to disasters like Valdez. ExxonMobil's Operations Integrity Management System created a routinized approach to learning in an inherently risky industry. The initiative holds individual units within the organization responsible for safety, integrity, and performance on 11 different subtopics, ranging from leadership to operational

integrity. The system now serves as the industry standard. The system works: While other firms in the oil and gas industry have experienced significant operational breakdowns, Exxon has yet to experience a major incident since implementing the system.

THE FOUR LEVELS OF LEARNING

ExxonMobil, like other organizations that build learning into their daily routines, has learned to navigate potential breakdowns across four levels: individual, group, organization, and industry. A study we conducted verified the fact that learning is a multilevel phenomenon. We collected data from an organization with over 1000 employees in a grocery store chain based in Asia. We found that learning across three of the four levels—the individual, group, and organizational levels—accounted for a significant part of the organization's financial performance. Further, we found that various forms of organizational support—from supervisors, team members, and organizational structures—supported learning in the organization. A second study revealed the value of the fourth level of learning, industry wide or interorganizational learning. Industry wide learning panels, cross-company cooperation, and knowledge sharing between organizations provide examples of how competitors with common interests can learn collectively. Fig. 1 shows different learning behaviors associated with each level of learning.

THE FOUR STAGES OF LEARNING AND RECOVERING FROM BREAKDOWN

The 2015 software failure at the Federal Aviation Administration center in Virginia shows that breakdowns do not always result in disastrous consequences, but can result in major inconvenience and reputational damage. The software created a new interface for air traffic controllers by providing a dashboard that accessed to up to the minute information. When installed, the new software quickly overloaded the system and flight operation for over 1000 flights became delayed or canceled. The upgrade was part of a system overhaul, part of the next generation air traffic control system called NextGen. The FAA responded quickly by rerouting traffic and rescheduling flights. Luckily, the FAA had processes in place to adapt to such a problem. Reputational damage was already done, threatening the future of a \$40 billion dollar system upgrade nearly 30 years overdue.

All organizations face breakdown, but the software glitch at the FAA shows that some organizations recover better than

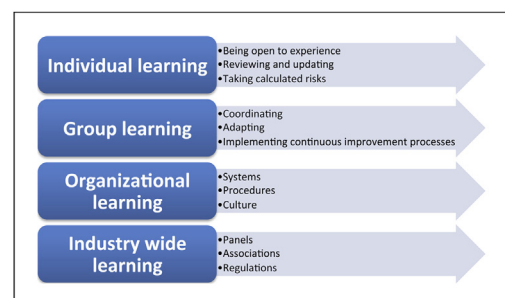


Figure 1 Learning Across Four Organization Levels.

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