The Paradox of threat and organizational inertia

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Extended Abstract

Organizational change is essential and organizations are always changing. In the
mean time, organizations limit change. Organizations are simultaneously inert entities,
favoring routines and static structures. That is, organizational inertia is prevailing in
organizational phenomenon. The phenomenon that incumbent firms fail to adapt to
environmental change had become a critical issue within organizational research.

Organizational capability continues to innovate and evolve. The studies of
resources, absorptive capability, and dynamic capability on adaptation strategies
become distinctive research stream in academic field. But why incumbent
organizations can’t response to environmental threat effectively? The inability to response may be lack of threat perception. But even after threat being perceived, organizations try to take action. The buffer effects of slack resources, tradeoff between external pressure and internal interest and functional conflicts, or the paradox of core competence and core rigidity may lead to action inertia. This paper suggests that organizational inertia is responsible for firm’s response. The different types of inertia have different consequence.

The above argument leads to paradox of perceived threats and organizational responses. Why firms fail to response organizational threat? To study the nature of organizational inertia is the first research question. Secondly, we try to explicit the effects of inertia on organizational response. We suggest the moderating role of organizational inertia.

Firstly, the nature of organizational is introduced in term of the inability to enact internal change in the face of significant external change. However, to clam that organizational structures are subject to strong inertial forces is not the same as claiming that organizations never change (Hannan and Freeman, 1984). For example, The Firestone company recognized technology breakthrough of radial tire. It acted and changed, but inappropriately. Sull (1999) defined it as active inertia. Polaroid company invested successfully in instant photography and became pioneer in digital
imaging technology. However, for Blade/razor business model, digital imaging was
sold. For cognitive inertia, Polaroid failed to keep pace with environmental change.

Gilbert (2005) also distinguished investment inertia and routine inertia. From the
above evidences, we argue that organizations always change. When moving on
current trajectory, the organizations become inert. The causes of organizational inertia
include unwilling to cannibalize, escalation of commitment and routine. But the
underlying phenomena are cognitive and structural inertia. For cognitive factor, we
adopt prospect theory and behavior theory of firm to explicit the risk-taking responses
to organizational threat. For structure inertia, threat-rigidity perspective is used to
explain risk-averse response.

The prospect theory and behavior theory of firms predict risk-taking action after
threat perception. The threat-rigidity perspective suggested the rigidity response of
information searching and decision making which leads to risking-averse behavior.

Some scholars try to consolidate the two different perspectives conceptually and
empirically. Many efforts are to clarify different effects of types of perceived threat-
potential loss and lack of control - on magnitude and direction of risk-taking behavior.
But the conclusions are not identical. Some scholars tried to un-bundle the structure of
organizational inertia-resource inertia vs. routine inertia, or cognitive inertia.

After review of threat-action paradox, slack resources (absorbed and unabsorbed
slack) and organizational inertia (cognitive and structure inertia), a conceptual framework is proposed. Other than the focus on the gap between threat-lead risk-taking and threat-rigidity perspectives, we argue the interaction between slack and perceived threat, and interaction between organizational inertia and perceived threat moderates the effect of perceived threat on organizational risk-taking response.

Key Words: Organizational change; Organizational Inertia; Prospect theory, Threat-Rigidity Hypothesis.
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Outline

- Introduction and research question
- Literature review
  - The nature of organizational threat
  - Failure-led change
  - Threat-rigidity hypothesis
  - The forms of slacks
- Propositions development
  - The nature of threat and organizational change
  - The moderating role of slack
- Discussion and conclusion
Introduction

- Organizations do change in response to perceived threat.
- Slack resources, acting as buffer of risk taking in the process of change, lead to probability of change.

- When threatened, why inertia?
  - The perception of threat will drive firm’s decision.
  - The firm’s internal context will influence action.

Organizations do change.

- Previous research told a straightforward story about organizational change.
- Various organizations, being they hospitals (Zajac and Shortell, 1989), Fortune 500 firms (Wiersema and Bantel, 1992), or start-up companies (Gersick, 1994), do change,
- They change in a number of common patterns, or archetypes (Miller, 1980):
  - large or small in scale (Ledford et al., 1989),
  - radical or incremental in process (Greenwood & Hinings, 1996),
  - anticipated or unanticipated in action (Nadler, 1998).
- In response to environmental changes.
  - Unexpected environmental jolts (Meyer, 1982)
But a lot of stories of inertia under environmental change

- Polaroid company (Trypass & Gavetti, 2001)
  - Successfully in instant photography and pioneer in digital imaging technology
  - For Blade/razor business model, digital imaging was sold.
  - For cognitive inertia, Polaroid failed to keep pace with environmental change.
- Firestone company, dominant fire company
  - The company recognized the threat of technology breakthrough of radial tire. It acted, but inappropriately (Sull, 1999).

Research gap

- Increasingly, researchers recognized the importance of manager’s cognition (Cho & Hambrick, 2006; Trypsas & Gavetti, 2001) in strategic change studies.
- Sull (1999) suggested the concept of active inertia, routine rigidity (Gillbert, 2005) that affect strategic change.
- Both constructs of threat perception and organizational slack are sources of strategic change and inertia.
Original idea

Problem search and Slack search (Cyert & March, 1963)
Risking behavior (Tversky & Kahneman, 1981)


When threatened, but inertia

- The inability to enact internal change in the face of significant external change (Tushman and Romanelli, 1985)

- To move, but on current trajectory
  - To claim that organizational structures are subject to strong inertial forces is not the same as claiming that organizations never change (Hannan and Freeman, 1984).
The nature of perceived threat

- The degree & direction of response to organizational pressure depend on the nature of threat (Chattopadhyay et al., 2001; Dutton and Duncan, 1987; Dutton & Jackson, 1988; Denison et al., 1996; Gilbert, 2005, 2006; Julian & Ofori-Dankwa, 2008; Martins and Kambil, 1999; Sharma, 2000).

- The past performance acts as an important context for future decision.

- The gap below actual performance and expected performance level motivate threat perception and future action.

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The nature of threat

![Diagram showing performance levels]

- Successful change
- Aspiration level
- Turnaround
- Survival level
- Bankruptcy, merged
Threat and response

- Failure-led change
  - Perceived threat will lead organizations to act to recover potential loss (Prospect theory)
- Performance below expectation level will lead to higher organizational change.

→ P1. The performance below aspiration level will be positively related to firm’s risk taking behavior (i.e., capital investment.)

Threat-rigidity hypothesis

- Firms will be risk-averse to gain more control under threat of uncertainty (Staw, Sandelands & Dutton, 1984; Occasion, 1995; Shimizu, 2007)
- Performance approaching survival level will lead to higher organizational inertia.

→ P2. The approaching survival level performance will be positively related conservation action (i.e., cost cutting).
Slack

- Slack refers to the stock of resources available to an organization that encourages innovation and change (Nohria & Gulati, 1996; Shafman, Wolf, Chase, & Tansik, 1988).
  - The positive relationship between slack resources and exploration activities (Nohria & Gulati, 1996; Singh, 1986; Kraatz & Zajac, 2001).
  - Core capability becomes core rigidity (Leonard-Barton, 1992).
  - In inertia literature, the firm size with slack causes inertia.
- We argue that different forms of slack have different effects.

Unabsorbed slack

- Financial resources, buffering risk of change, motivate organizational risk taking behavior.
- Unabsorbed slack drives organizational motivation to change, then change survival level inertia.

Absorbed slack

- Production capability, specialized commitment, acts as structural constraint to change.
- Absorbed slack causes structural constraint, that slows down the aspiration level change.
The effect of unabsorbed slack

Conceptual framework
■ P3, The higher level of unabsorbed slack will facilitate the association between aspiration level performance and capital investment.

■ P4, The higher level of unabsorbed slack will weaken the association between approaching survival performance and conservation action.

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**The effect of absorbed slack**

■ Production capability, specialized commitment,
■ acts as structural constraint to change.
■ Firms with absorbed slack will be not likely to change existing strategies.
■ Absorbed slack causes structural constraint, that slows down the aspiration level change.
P5. The level of absorbed slack (i.e., production capability) will strengthen the association between survival level performance and risk-taking behavior.

P6. The level of absorbed slack will weaken the association between aspiration level performance and risk-taking behavior.
Discussion and implication

- The gap between past performance / other firms' performance and Firm's actual performance triggers firm's threat perception and future decision making of strategic change.
- The implementation of strategic change is affected by firm's internal context.

Thanks for your attention

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