Retheorizing Failure
The Dynamics of Deselection in Organizational Communities

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Abstract

Organizational failures are critical occurrences that pose the risk of disrupting relationships and activities within communities of organizations. We suggest that community members are not passive bystanders as deselection occurs, but instead actively negotiate interventions for disruptive failures to prevent such negative repercussions for the community. Missing from much organizational research is a focus on the dynamics and process of how these occur. Both institutional theory and population ecology focus more on successful organizations after they have arrived than on the dynamics of how they came to succeed or become selected. While their more recent versions have expanded to include entrepreneurship and startups, the dynamics of how organizational fields and organizations manage failure and negotiate "de-selection" remain under examined. We argue that communities establish institutions for failure to support and legitimize such interventions. Our theory of 'negotiated deselection' illuminates the relational dynamics and the material and symbolic efforts that contribute towards the maintenance and retention of organizational communities.

Introduction

One of the most enduring themes in strategic management research concerns why certain organizations succeed whereas others fail. While scholarly works have highlighted the importance of *strategizing to avoid* failure and *learning from* failure (D'Aveni and MacMillan, 1990; Levinthal and March, 1993; Denrell, 2003; Madsen and Desai, 2010), there have been scarcely any studies that specifically anatomize failure as a stage in the organizational life cycle and evaluate the strategies available to organizations at near end-points. In underscoring the gravity of the anathematic "F Word" Ignatius (2011) bemoaned our tendency to "fail at failure" (p. 12). In order to grasp what Ignatius (2011) calls the "art and science of failing well" (p. 12), we first need to subject the phenomenon of failure itself to a more complex examination. In this review article, we seek to demystify the definitional ambiguity surrounding failure, and bridge two previously disparate streams of literature to advance a more nuanced understanding of strategic management at towards the end stages of the organizational life cycle: (1) the relation of organizational failure to law and politics, and (2) the rhetoric of business negotiations surrounding it.

Besides metaphorically endowing them with life cycles, scholars in management have conferred upon organizations additional human attributes: identity, cognition, capability, birth, growth, health, failure and death. In so anthropomorphizing organizations, it can be intuitive to

liken organizational death following organizational failure to an ailing patient having suffered without treatment or having received untenable treatment finally meeting with inevitable demise. When extending individual-level models to organizational theories of action (see Anderson, 2008; Friedman, Lipshitz and Popper, 2005 for a discussion on how such extrapolation occurs), it is not atypical to analogize the processes involved in helping failing organizations to recover to how a physician endeavors to treat his ward - a natural matter of course for a patient actively seeking cure. Using illustrations from extant literature, we argue that the provision of this treatment is neither a binary event nor a normal matter of course for organizations striving to regain fitness- it is a *rhetorically mediated politically negotiated process*. There is, in fact, a grey area between the life cycle stages of organizational fitness and organizational death- a realm of second chances, where there are opportunities to negotiate failure among the members of the organizational field and the relevant institutional overseers. The scope for negotiating failure is primarily determined by four elements, namely, the perceived reasons for failure, the organizational stakeholders, the purported organizational history, and the predictions for the future of the organization.

Taken together, these factors determine the *negotiation space* for the failing organization and its members (Wohlgezogen and Hirsch, 2009). We demonstrate how the perceived reasons for failure and the stakeholders represent the political dynamics in the negotiation process, while the evoked history and the predictions for the future constitute the rhetorical dynamics (Appendix: Figure 1). Drawing from Eckhouse (1998), we underscore *how* business communication in the negotiation space is a political and rhetorical venture where the chances to secure a positive intervention aiding the recovery from failure depend on the ability of the organizational actors to gain advantage over other forces *competing* for their audience's attention. We discuss how organizations acting in this negotiation space have an incentive to use rhetoric about its future to deliberately evoke a fear of crippling loss to the society as a consequence of their demise or to promote irrational expectations among its stakeholders, thereby creating a moral hazard situation. Such a negotiation strategy falls in line with Booth's (2004) Win-Rhetoric, which "the Greeks labeled *eristic*: the intent to win at all costs, whether honorable or dishonorable" (p. 43; also see King, 2010). Instead of conceptualizing failure as a binary outcome, we highlight the diversity in trajectories leading to multiple possible exit points on a temporal continuum shaped by field-level attempts at intervention and non-intervention.

In the first part of the paper, we explain the rationale for *including* the negotiation space and clarify some definitional issues related to failure. In the next part, *we incorporate the negotiation space review to build* on the existing process life cycle *models* of failure. In the third part, we delineate the dynamics of this process, and *conclude with* several propositions to *provide directions* for future research.

Construing the Negotiation Space: Why "Yet Another" Theory for Failure?

Following Whetten's (1980) call for more investigation into organizational failure and decline, there has been a proliferation in research tackling different aspects of this topic using a variety of theoretical perspectives: deterministic, industrial organization, organizational ecology, and voluntaristic (see Barnett and Burgelman, 1996; Mellahi and Wilkinson, 2004 for a detailed review of the literature). While some scholars have been more fatalistic in their conceptualization of failure (see Boulding, 1950; Balderston, 1972), others find the cause for failure much closer to

home. Levitt (1960) adopts the lens of strategic choice in understanding failure by attributing the primary responsibility to the managers for failing to adequately assess the organizational environment. Miles and Snow (1994) use the strategic fit view to explain how the failure of organizational leaders to respond to external changes in a timely manner can lead to unravelling from within.

In another standpoint that internalizes the blame for organizational failure, Sheppard and Chowdhury (2005) suggest that "while experiencing a downward spiral, failing organizations are continually involved in recurring sets of poor decisions that lead them into inferior circumstances. At some point the downward spiral is halted by either a failure or a turnaround" (p. 241). We contend that these recurring sets of decisions need not necessarily be "poor," but rather can also reflect the outcome of a failed or insufficient negotiation with other actors external to the organization such that the reason for the outcome may not unilaterally lie with the members of the organization that experienced the failure. Agrawal, Cockburn and Zhang (2014) drew attention to the importance of negotiation in their work on the sources of failure in the licensing process, although their work did not encompass how a somewhat different negotiation space might open up after an organization encounters failure. The importance of acknowledging the existence of this negotiation space resides in its ability to create a new context by generating a richer understanding of organizational failure (see Morgan, 1997/1986). As suggested by Morgan (1997/1986), we believe that fresh insights into this concept through an analysis of how organizations going through the passage of failure strategically utilize this negotiation space can engender opportunities to challenge the prevailing norms, paradigms, and assumptions about understanding failure.

Defining Organizational Failure and Death

In organizational literature, the terms *failing* and *dying* or *having failed* and *being dead*, are often used interchangeably (Sheppard, 1994; Mellahi & Wilkinson, 2004; Sheppard and Chowdhury, 2005). In the population ecology perspective, the vocabulary of failure, death and mortality typically refer to the same end: the demise of the organization (see Freeman, Carroll and Hannan, 1983). On the other hand, the word failure has been used in a much broader sense by scholars such as Gillespie and Dietz (2009) who use it to encompass an event or a range of events that compromise organizational legitimacy including (p. 127):

> …accounting frauds (e.g., Enron, WorldCom, Parmalat); deceit (e.g., plagiarized and fabricated reports by the *New York Times*); incompetence (e.g., the US Federal Emergency Management agency's response to Hurricane Katrina); fatal, avoidable accidents (e.g., Union Carbide's chemical spill at Bhopal, BP's Texas City refinery fire, Townsend Thoresen/ P&O's ferry sinking at Zeebrugge); exploitation of vulnerable people (e.g., use of child labor sweatshops); massive compulsory job losses (e.g., IBM in the 1990s); and bankruptcies and catastrophic collapses in organizational finance (e.g., AIG, Freddie Mac and Fannie Mae, Northern Rock).

The need for a broader definition for failure has also been heralded by some practitioners (Godin, 2010), and dialogue in practitioner-oriented outlets frequently use the term in its broader sense (Edmondson, 2011). Given the socially constructed nature of the term failure, the different frames of meaning employed in scholarly discussions have resulted in a versatile vernacular. That failure equals bankruptcy is simply a myth of an unsettled discourse. Bell and Taylor (2011) further notes that the "conceptualization of organizational death is complicated by the fact that

scholars have used it to refer to a wide range of organizational change events, including site closure, business or project failure, downsizing, restructuring, mergers and acquisitions" (p. 1). We endeavor to bring some clarity to the dialogue by first attempting to tidy up with a few typologies. In this paper, we define "failing" as a stage of transition from performance at expected level to performance below the expected level. To illustrate, when the performance of the firm is progressively driven past the critical point in expectations due to (say) periods of sustained adverse macroeconomic conditions, the path of transition can be delineated as the "process of failing." It is a flow variable that refers to a period of time, rather than to an event or an instance in time.

On the other hand, "having failed" implies that performance has fallen below critical point such that there has been significant increase (temporary or permanent) in the hazard of organizational death. In the "dying" phase that often precedes the fate of "being dead," negotiations have either proved insufficient or a planned exit has been put into action. At this stage, stakeholders might engage in symbolically detaching themselves from the organization (see Hardy, 1985; Harris and Sutton, 1986). Unlike failure, organizational death is unambiguous. Drawing from Sutton (1987), we define "being dead" as the stage of the life cycle when "former participants agree that the organization is defunct, and the set of activities comprised by the dying organization are no longer accomplished intact (i.e., all activities have halted or been dispersed among two or more other organizations)" (p. 543). Mortality, demise, and exit are the alternative words used to connote death. Of course, there is a slight contradiction in Sutton's definition because it can happen that although the organizational activities has been formally been dispersed, the stakeholders refuse to see it as "death." We acknowledge that even when using a very particular taxonomy of organizational death, there can be a contest among the multiple frames on the meaning of death used by the concerned stakeholders leading to ambiguity in the operational definition.

TOWARDS A NON-LINEAR MODEL OF FAILURE

Sheppard and Chowdhury (2005) contended that as organizational "failure involves the alignment- or misalignment – of the organization and its environment- it is, by definition about strategy" and since it deals with strategy "we can make choices to accelerate it or avoid falling into its clutches" (p. 240). They advanced a four-stage model of failure with an extended indeterminate stage where these decisive choices took place (Appendix: Figure 2). We build on Sheppard and Chowdhury's work by suggesting that this intermediate phase or the realm of second chances can be characterized as a complex politically-charged and rhetorically mediated negotiation space where other field actors actively participate. We capture this complexity in our non-linear processual model where we illustrate the presence of multiple paths leading to different outcomes and alternate points of exit (see Appendix: Figure 3).

For some organizations, the decline stage depicted in Figure 3 can be highly compressed such that the transition from the peak of organizational performance to the failure stage is more precipitous (Probst and Raisch, 2005). At point A in Figure 3, there are three possible outcomes: (1) no negotiations may take place due to either an impasse or a consensus for non-intervention among the organizational actors. This is highly probable when the members of a field consensually decide to punish a failing/ failed organization for engaging in deviant behavior or

where they hold a consensual view that the field-level benefit of the continued existence of the failing organization is minimal or even negative (2) negotiations may occur with the objective of planned exit (3) negotiations may take place with the objective of rejuvenating the failing/ failed organization, which can prove to be insufficient (possibly leading to the peak between points A and B but not enabling return to expected performance), or can be sufficient leading to point C.

An illustration of insufficient negotiation is the $3 billion rescue deal signed on July 19, 2009 by the CIT bondholders in an attempt to save CIT Group Inc. from bankruptcy. The attempt failed, and CIT had to file for Chapter 11 bankruptcy some months later. Once at point C following sufficient negotiation, the rebound can bear out to be either sustainable or unsustainable; at the latter stage there may be further negotiations or a decision to let the organization die. A prominent example of a successful and sufficient negotiation but seemingly unsustainable rebound is the €100 billion bailout of the Spanish banks. Although the negotiations were successful and apparently sufficient initially, the banks have been unable to maintain their expected levels of performance. The advantages of this non-linear model lie in its abstention from construing failure as a simple binary outcome and in its eschewal of the confounding of organizational death and organizational failure.

Position In The Negotiation Space Vis-À-Vis Other Field Actors And Regulatory Institutions

King and Walker (2014) have emphasized the weight of "winning hearts and minds" of other field actors as an integral part of strategy. In the context of organizational failure, the various actors in the field may have different ideologies and conflicting opinions on what the fate of the failing/ failed organization should be. The negotiating process involved in the potential rejuvenation of failing or failed organizations is similar to the political contestation involved in the emergence of new organizational forms (see Rao, Morrill and Zald, 2000; Rao and Kenney, 2008). The negotiations take place not only among the field actors, but also between the field actors and the institutions that can be potential partners in this negotiating space (Appendix: Figure 4). In examining the negotiation space that opened following the Greek governmental failure, we observe that subsequent negotiations on deciding the fate of the country took place not only among the other field actors i.e. the other national governments in the Eurozone, but also between these governments and institutions like the International Monetary Fund. We posit that such institutions create a bounded behavioral freedom to accommodate failure. This institutionalized flexibility allows for variable degrees of commitment to intervention and provides opportunities to opt out. It also provides an enlarged set of opportunities for organizational reconstitution and restructuring. Most importantly, it provides room for negotiation and consensus development amongst the affected constituents, who likely differ with regard to how they are affected by the failure and thus prefer different interventions.

Judgmental failures resulting from irrational expectations are quite common in negotiations. When multiple members of a field are adversely affected by the failure of a firm, they may provoke the sentiment of "undeserved loss."[1] As humans are typically characterized by loss aversion, an organization facing imminent death can resort to evoking a fear of crippling loss to the society as a consequence of their demise. Such fear may lead the overseeing

[1] See Jonsson, Greve and Fujiwara-Greve (2009) for a discussion on how underserved losses in legitimacy can occur in a field.

institutions to engage in proactive negotiations. Further, in order to save itself, a failing organization has an incentive to behaving opportunistically (Williamson, 1980) by deliberately choosing to employ rhetorical and political devices that promote irrational expectations about its future among its stakeholders or among the concerned regulatory institutions, thereby creating a moral hazard situation. In the paper, we endeavored to bring together all these scattered concepts in the literature in a coherent structure to illuminate the underlying strategic complexity inherent in the "F Word."

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APPENDIX

Figures

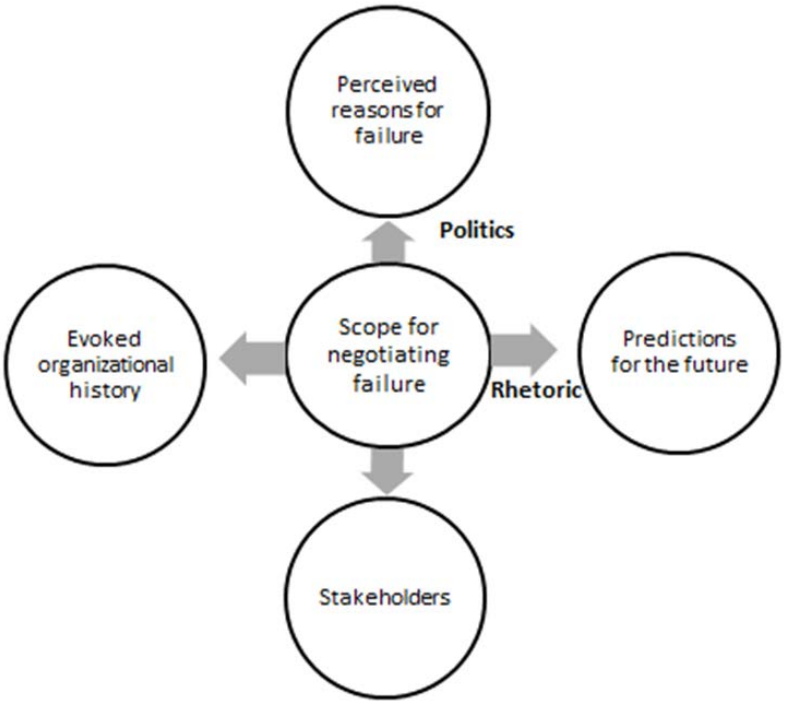

Figure 1. The rhetorical and political elements determining the scope for negotiation

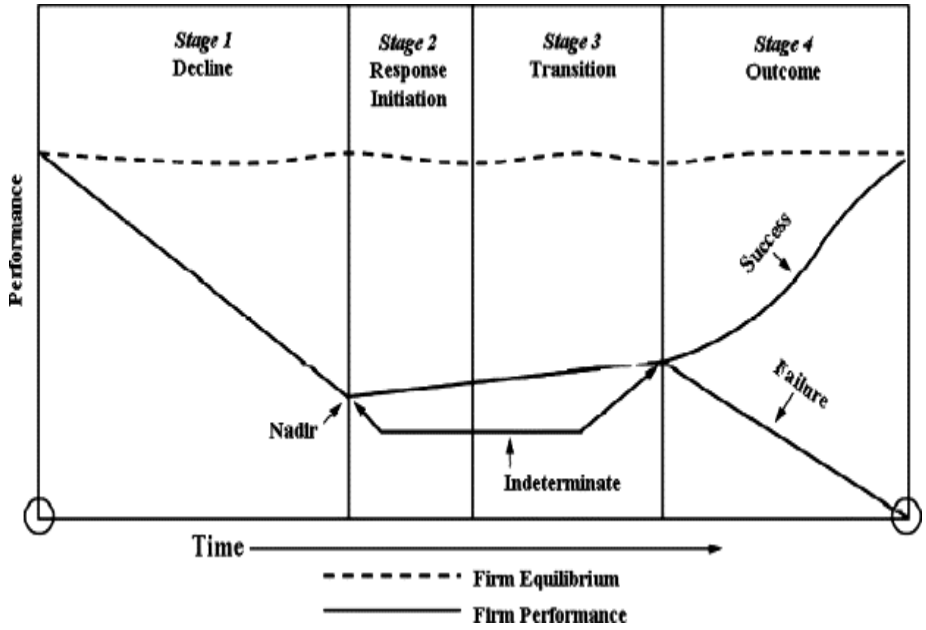

Figure 2. Sheppard and Chowdhury (2005)

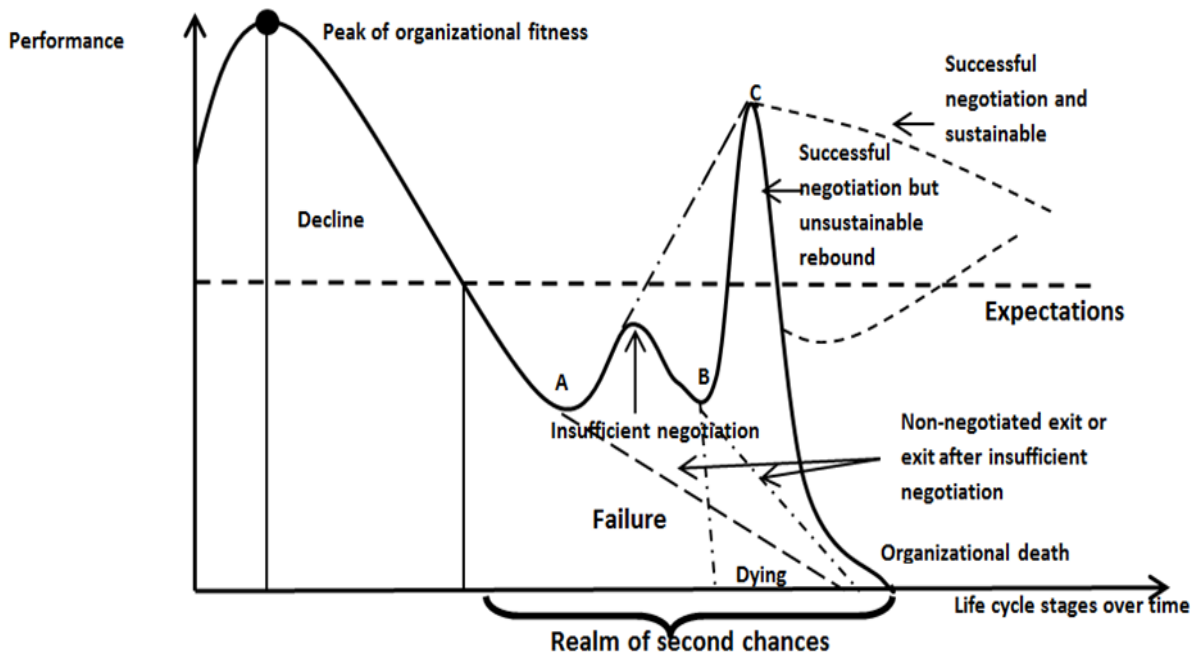

Figure 3. Non-linear model of failure capturing the negotiation space and the multiple possible exit points

Competence of the failing organization's managers in securing appropriate negotiation opportunities, and strategically employing suitable rhetorical and political devices	Level of support of the other organizational field members and the relevant regulatory institutions to the failing organization's negotiated revival: Low	High
High	Negotiated outcome (exit/ rebound)	Organizational rebound
Low	Organizational death	Negotiated outcome (exit/ rebound)

Figure 4. Four possible scenarios in the failure negotiation space