

# Organizational Change and Organizational Inertia

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## Abstract

Organizational inertia is prevailing in organizational phenomenon. For its path dependence nature, organizations follow and preserve successful experience and history. But organization with great heritage may become resistance to change. Being inspired from two famous cases, Firestone and Palaroid, cognitive and active inertia were identified for future research. That is, organizational inertia is multi-facets. Whether organizational persistence is beneficial for survival or not depend on organizational change. Organizational inertia is also multi-dimension, at least, including economic, cognitive and routine-based rationales. There are various theoretical perspectives to understand organizational inertia. Finally, to facilitate organizational change and organizational survival, managers have better to distinguish cognitive and active inertia to overcome barriers of resistance.

Key Words: Organizational Inertia; Cognitive Inertia; Active Inertia

## Introduction

The phenomenon of organizational inertia is popular in business practice and academic research (Gavetti, 2005; Gilbert, 2005, 2006; Hannan & Freeman, 1984; Hodgkinson, 1997; Tripsas & Gavetti, 2000). In stable and evolutionary environment, structure inertia provides organizational accountability and reliability, which promote organizational survival (Hannan & Freeman, 1984). In face of radical change, successful company may go failure. So, organizational inertia should be both positive and negative on organizational survival and performance. In the positive side, organizations with structural inertia promote reliable and efficient productivity. But

capability may become rigidity. Many large and successful organizations fail to respond to environmental change and pressure. Especially, when they have perceived external threat or opportunity and take action to change, some organizations still fail to implement the change process (Sull, 1999; Gilbert, 2005; 2006). What are the sources of organizational inertia? There are various rationales inclusive of sunk cost, mindless routines and institutionalization, interest conflict, and cognitive problem.

After literature review, the paper tries to infer the above question. Also, inspired from both of Firestone (Sull, 1999) and Polaroid (Tripsas & Gavetti, 2000) cases, the paper identifies two distinctive cognitive and active inertia, which have different causes, nature and consequences? In the following section, two cases of organizational inertia (Polaroid and Firestone) were quoted firstly to explicit the phenomenon of organizational inertia. The third section adopted ecologist's perspective to discuss the nature of inertia. Finally, cognitive and active inertia are identified.

### **Cases of Polaroid and Firestone**

Polaroid corporation, the pioneer of instant image, failed to catch up digital image market for top managers' cognitive inertia and hierarchical cognitive conflict. In business practice, there are many organizations that try to reinvest or modify their strategies, but failed. Firestone recognizes the radical technology innovation, radial tyre, from its subsidiary in Europe. The top managers can predict the trend in US, and erect new plant. But the persistence of culture, structure prevents Firestone from successful transformation (Sull, 1999). The Firestone case (Sull, 1999) showed four hallmarks of active inertia. The managers may blind to change their strategic view about business. The operating process is institutionalized. The relationship between stakeholders (employee, customers, suppliers) yields lock-in effect. Finally, in order to maintain family culture, Firestone rejected to close plant. Over-capacity becomes his source of loss.

Both of Polaroid and Firestone detected pressure of technical innovation, and failed to implemented radical change. The two cases indicate three specific questions. When organizations perceived threat and make decision to change, why they can't change successfully? Parts of reasons may be attributed to cognitive problem. We argue that cognitive and active inertia are obstacles. Secondly, what's difference between cognitive inertia and active inertia in the change process? Thirdly, both Firestone and Polaroid were top companies in their industry, why their capability becomes competence trap?

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Structural inertia perspective (Hannan & Freeman, 1984; Larson & Lomi, 2002) provides valuable insight of organizational change and inertia. According to ecologists' view, organizational inertia is consequence of organizational population selection.

But why some organizations can change successfully to adapt to environmental selection? Others can't. Organizational factors should matter to response to environmental threat (Dutton & Jackson, 1987; Jackson & Dutton, 1988; Staw, Sandelands, & Dutton, 1981). Some scholars argued the micro-foundation of top managers' cognitive inertia (Gavetti, 2005; Hodgkinson, 1997). But even organization can perceive opportunity and threat, but still can't overcome strategic transformation, due to its active inertia (Sull, 1999). Gillbet (2005) divided them to resource rigidity (failure to change investment pattern) and routine rigidity (failure to change organizational process). Therefore, to distinguish different types of inertia not only can identify characteristics of inertia, but also divides different mechanisms of overcoming inertia (Gillbert, 2005).

So, it is needed to clarify the difference between cognitive and active inertia. But most of cognitive inertia literatures focus on decision maker's cognitive bias or conflict between top managers and divisional managers. In the period of organizational adaptation, cognitive and interest conflict among various departments play critical role to prevent organizational change.

### **Organizational inertia**

Inertia is the strong persistence of existing structure, capability. For organization's survival or success, it may be good or bad to maintain strong persistence. Based on the resource-based view, firms can be seen as constituting a bundle of resources (Wernerfelt, 1984). The resources determine an organization's strength and weakness to a greater degree than does industrial structure consideration (Rumelt, 1991; Gabriel, Venkat, and Paul, 2003). Only valuable, rare, un-imitable, and non-substitutable resources and capabilities can sustain firms' competitive advantage. For their un-imitable and non-substitutable characteristics, organizations develop resources and capabilities under unique historical condition, which become social complexities, and causal ambiguity (Barney, 1991). Therefore, it's the source of sustainable competitive advantage.

Organizational ecologist also supported positive side of organizational inertia. According to Hannan & Freeman (1984), organizations are superior to market for their accountability and reliability. Reliable Organizations can reduce variety and ensure their consistence of product quality or service level for customers. Stakeholders can trust organizations which are responsible for their product and service. For accountability and reliability, organizational structure needs to be more stable overtime. The more stable structure, which means deeply institutionalization and standardization, brings inertial pressure to organization. Under stable or incremental environment, the organizations with structure inertia will have more chance to survival.

But Hannan & Freeman (1984) also stated that structure inertia will be problem for organizations under environment of revolutionary change. When organizational structures and practices are inefficient, inertia will be a problem (Rumelt, 1995). Especially, under radical technical or institutional change, too much persistence causes internal resistance and prevents organizations from adapting to external pressures.

Why structure is so hard to change? What are determinants of organizational inertia? Similar to Michael Porter's five forces analysis of industrial competition, Rumelt (1995) indicated five frictions: distorted perception, dulled motivation, failed creative response, political deadlocks, and action disconnects (leadership inaction).

### **Cognitive and Active Inertia**

There are at least three rationales. The first is about economic reason. In other words, decision maker will hesitate to abandon past and existing investment for sunk cost or cannibalization effect. Ghemawat (1991; 17) use case of Boeing 747 to explain effect of sunk cost. Chandy and Tellis (1998) defined willingness to cannibalize as 'the extent to which a firm is prepared to reduce the actual or potential value of its investments. The cannibalization effect is similar to resource rigidity (failure to change investment pattern) (Gilbert, 1005). But after the change decision, what causes implementation inertia?

There will be two distinct types of organizational inertia: cognitive inertia and active inertia.

#### **Cognitive Inertia**

Cognitive inertia refers to change agent's cognitive bias and cognitive conflict. According to behavior theory of firm (Simon, 1947; Cyert and March, 1992; 2nd), change agent only can process limited information. The limited cognitive capability urges change agents to limit their cognitive effort. They use cognitive representatives to

filter external information and make judgment. The cognitive process (information process) is schema-driven (Jackson and Dutton, 1988: ASQ). Environmental events are enacted in term of schemata (reference of frames, mental models), which identify and interpretive events and guild future action (decision making and behavior). The case of Polarid (Tripsas and Gavetti, 2000) showed evidence of the cognitive inertia. “Razor/blade” business model, which main profit comes from sale of “firm”, promoted top managers to drop out Polarid’s innovative technology.

In changing process (Organizations have taken actions to change.), cognitive conflict between change agents decreases degree of coordination and slow down changing process. Gavetti (2005)’s research conclusion argued the hierarchical cognitive inertia. Because of their different knowledge base about business model and digital image technology, cognitive conflict between Polarid’s top managers and managers of digital image appears. Not only hierarchical cognitive inertia, horizontal conflict also exists. The more different interest and background among departments is, the more conflict will be. In other words, the more division of knowledge is, the more cognitive conflict will be.

### **Active Inertia**

Active inertia refers to reutilized process and shared beliefs and norms that cause persistence. The other research stream focuses on capability evolution. Core competence of successful organization may become core rigidity (Leonard-Barton, 1992) or competence traps (Levinthal & March, 1988). The research indicates capability evolution and knowledge stocks also cause path-dependence, even more, prevent organization’s adaptation. But the different types of capability have distinct effects on organizational performance (Moorman & Miner, 1997). Routines are “building block of capability”.

Standard operation process or routines, embodied in employee knowledge, technical systems, managerial systems, and values, are institutionalized, and part of an organization’s ‘taken-for-granted’ reality. For the ‘taken-for-granted’ nature, routines economize managerial cognitive resources, increase stability, and reduce uncertainty in decision-making. For tacit ness nature, organizations sustain competitive advantage. Existing routines for providing satisficing solutions prevent organizations from outsourcing or initiating changes. Becker (2004) also indicated that routines (due to the interactions they are composed of) enable feedback, but the feedback is ignored. That is, organizational routines, acting as perceptual filters, filters out novel information and knowledge.

## Discussion

In the organizational inertia research, the paper provides several ideas to clarify inertia and rigidity concept, cognitive and active inertia.

Firstly, rigidity means that core competence is out of date. Organizational inertia means strong persistence in past experience, knowledge base. Organization with inertia can provide reliable, qualified product and service and increase stakeholders' satisfaction, which increase survival rate.

Secondly, to distinguish cognitive and active inertia means that one of them can't explain whole picture of organizational inertia. Furthermore, cognitive bias is not only source of cognitive inertia. We also extend hierarchical cognitive conflict to horizontal conflict.

For the conceptual paper, we propose conceptual framework to evaluate rationales and theoretical implication. Empirical research is needed in the future.

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