

## CORPORATE FAILURES:

### Why Organisations Fail To Learn

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#### I. INTRODUCTION

One of the prevalent concerns in the present times, for both management academics and practitioners, relates to the principles which determine corporate successes and failures. Stated as a question, this concern can be expressed as: In the present era of environmental turbulence, why do some organisations prosper and grow, while others collapse and disintegrate?

Most efforts to answer this question have focused on the principles and practices which make the organisations successful. Correspondingly, corporate success has been variously attributed to pursuit of excellence (Peters and Waterman, 1982), mastering the art of corporate change and transformation (Tichy, 1983; Kanter, 1985), transformational leadership (Tichy and Devanna, 1986), focus on core competence (Prahalad and Hamel, 1990), time-based competition and fast-cycle capabilities (Stalk and Hout, 1990), achieving total customer satisfaction (Horovitz and Panak, 1992), managing quality (Garvin, 1988), lean manufacturing technologies and continuous improvements (Suzaki, 1987; Hayes, Wheelwright and Clark, 1988; Harmen, 1992), and so on. These insights are also largely consistent with each other, and provide significant understanding about the dynamics of success. However, in remaining primarily focused on the successful, they address the issue of corporate failures only by exception, effectively implying that failures result from the absence of one or more of the above attributes.

This preoccupation with success is widely shared in the management literature (with some notable exceptions, e.g., Cameron, Sutton and Whetten, 1988; Miller, 1990; Pauchant and Mitroff, 1992, etc.). While corporate failure is an age-old reality, its study is a comparatively recent phenomenon, emerging as a reasonably noticeable field only during the 1980s. Cameron, Sutton, and Whetten (1988) found that about 75% of literature on organisational decline and failure was published after 1978, possibly indicating greater consciousness, among the researchers, about the increasing environmental threats to corporate survival.

This paper aims to explore the reasons which make organisations fail and decline. There are two reasons for adapting such an approach. Firstly, from the life-cycle and population ecology perspectives, organisational decline and death seems to be a natural process, and needs to be understood. In a study of US Corporations, Nystrom and Starbuck (1984) found that close to 90% organisations fail to survive beyond twenty years of their inception. In India, investments worth Rs. 60 billions (about \$1.9 bn) are held by about 2,000 sick small and medium scale units (Gopal, 1991). Another study (Pascale, 1990) reported that after within five years of their research, two-third of Peters and Waterman's 43 "excellent" companies were no longer excellent on the six financial criteria which were used for identifying them; eight of them, in fact, were in deep trouble. Similarly, a report in *Forbes* (Williams, 1988) found that only 22 of the 100 largest US companies of 1917 still figured in the list in 1987. Makridakis (1991) listed out some interesting facts about the prevalence of organisational failures from various reports, books and article, such as:

- On average, it takes 8 years until corporate ventures become successful, while a majority of new ventures never make a profit;
- For every successful corporate turnaround there are two that fail;
- There were close to half a million business bankruptcies in the world in 1988;
- Between 35 to 85 percent (depending on the specific study) of new products fail ever to make a profit;
- Within last 20 years, more than 350 major firms failed in the computer industry;
- In 1989, there were more than \$7 billion losses among the top 200 world banks;

- In the automobile industry alone more than 1,500 firms have failed in the past, and so on.

The fact that this aspect of business reality has been largely neglected is evidenced in Cameron and Whetten's (1983) finding that only one out of the ten organisational life-cycle models which they reviewed considered the phenomenon of organisational decline at all. The other nine seemed to assume, and indicate, an unending growth curve, or at least stability - a fact, which in the light of the findings quoted above is open to question. Corporate failures and declines are apparently quite prevalent and common, but are somehow hushed up.

The second reason for exploring the reasons for corporate decline and failures relates to the very nature of success. The systems view of organisation (Katz and Kahn, 1978) defines corporate success and effectiveness in terms of the extent of alignment and fit between the organisation and its perceived and real operating environments. There can, however, be numerous reasons and ways

in which organisations may lose this alignment, and create conditions for failures. One may say, that while the determining principles of corporate success are more or less similar in all cases, the paths to failure are different and varied. Correspondingly, this paper reviews the literature on the subject to identify broad categories of reasons for organisational decline and failure. It also aims to highlight that organisational inability to learn is a common theme which cuts across these categories.

## II. REASONS FOR CORPORATE FAILURES

Mostly, when organisations fail (i.e., go bankrupt, lose market share, show low profits or losses for long periods, etc.), one tends to assign some single, and very often an external, event (e.g., a long-drawn labour strike, failure of a major product, a bad investment, etc.) as the root cause. In management literature, corporate failures have been attributed to reasons which are both external (e.g., competition, changes in government regulations, scarcity of inputs, etc.) and internal (e.g., managerial incompetence, structural rigidity, lack of leadership, etc.). Various studies (e.g., Smith, 1966; Cohen, 1973; Argenti, 1976; Kibel, 1982; Lurie and Ahearn, 1990; Makridakis, 1991) have also listed down a number of probable reasons which are likely to make organisations prone to failures. A review of this literature brings out four broad (though not mutually exclusive) categories of reasons, which are described below:

### 1. Decline is natural and predictable due to the industry and organisational life-cycles.

The most obvious reason for organisational failure is, of course, a change in their "environment niche" (Cameron and Zammuto, 1983), making it no longer possible for them to survive. Not only do organisations have life-cycles - i.e., they are born, grow, mature and die - but so do have whole sectors and industries. During the industrial revolution, mass-scale manufacturing displaced agriculture as the primary means of creation of wealth. In the last few decades, service and information sectors have emerged as replacements for mass-manufacturing industries. Similarly, among industries, textiles gave way to more core industries like chemicals, steel, construction, etc., which are now giving way to more high-tech industries, e.g., computers, bio-technology, etc.

It would be natural for organisations to follow the life cycle dictates of their respective industries. They probably do not have much choice either, but to decline once they (and their respective industrial sectors) reach the limits of their S-curve. Makridakis (1991) described this rise and fall of organisations and industries as a natural process of evolution and selection in a changing environment:

"As new technologies emerge, the growth patterns shift and new industries and firms appear and prosper. At the same time, the older ones become less competitive and lose their real or relative advantages. Although many of the older industries can operate for a long time after new technologies appear or consumer attitudes change, they lose their dynamism and their potential to generate adequate returns on investment. As they eventually slow down, they are merged into other companies, are bought out, or stop operating altogether."

The components of increasing competition (and consequent decline of less competitive organisations) are, thus, inherent in the life-cycle framework. Growth of an industry attracts more competition, both from new entrants and the existing organisations. If one analyses the factors constituting the competition, three basic source can be identified:

Firstly, competition comes from firms which compete around similar parameters (price, efficiency, cost, volume). Competitive advantage depends on learning to do more of the same thing, but better than your competitor - reduce costs for better profits, increase volumes for achieving economies of scale, provide more efficiency to boost demand, and so on. The Boston Consulting Group's concept of "experience/learning-curve" also implies that a firm's capacity to stay ahead in competition depends on its ability to learn by performing more of similar activities. To do so, the organisation must evolve more complex and sophisticated capabilities for information processing (Galbraith, 1973). That is, it must develop structures, systems and processes which can scan and filter relevant information about competitive environment, draw appropriate picture of opportunities and threats, and match its internal planning and coordination decisions for gaining competitive advantage.

The second source of competition is from the fragmentation of market by the new entrants, who carve out a specialised segment for themselves. The oft repeated pattern is the emergence of formidable competition from the lower end of the market. These new competitors focus on producing and selling low-price lowmargin commodity products, an area usually neglected by the established players. For instance, the main competition to Xerox copiers in the late 1970s, came not from industry competitors like IBM and Kodak, but from new Japanese companies like Canon and Sevin, who had nibbled away its monopoly starting from the lower end. Similarly, in India, the dominance of established companies, like HMV and Polydor, in the audio cassettes market was challenged by a newcomer, Super Cassettes Industries, which started offering low-priced music cassettes to the lower-income group market. The price of Super's cassettes was about Rs 15-18 (with a margin of one rupee), which was one third of those sold by the established competitors, who had so far focused only on the urban elites. In a period of a decade, by the end of 1980s, Super Cassettes had annual revenues of Rs 2.15 billions (about \$67 million), and a 60% market share.

The high volumes possible at the lower-end also provide the new entrants with ample learning experience of technologies, markets, and managerial practices, which is necessary for gradual forays into other higher segments of the market. For the established firms, the counter-competitive strategy would revolve around capitalising on their long experience in the market, i.e., on developing a more differentiated perception of the market environment, deriving unique and realistic criteria for segmentation of the market, and learning about the specific needs of the particular segments. Organisations which fail to survive and thrive through this kind of competition are those which are unable to translate their learning into marketable products and/or services.

Lastly, the third kind of competition comes from substitutes which replace the existing products and technologies. These constitute competitive products, services and technologies, which emerge out of technological advances, and serve the market needs in a more efficient, but different, manner. Many established and successful companies often ignore the new developments as a passing fad. For instance, the Swiss watch manufacturing company, SSIH, went into a decline because it was unable to recognise that the technological advances had shifted the base of manufacturing technology from mechanical to electronic. Similarly, the Ramington Rand of India Ltd., a one time market leader in the typewriter market, lost out to competition during 1980s - and registered losses - because of its failure to recognise the shift of the technological base from mechanical to electronics and word-processing. New and technologically advanced products initiate a qualitative change in the structure and shape of competitive environment. Companies fare better against this kind of competition, if they (a) learn, develop and maintain a pool of technological assets, (b) are able to combine different types of technologies and use technological interdependences, (c) conduct more and early experimentation in the field, and (d) keep up with the technology trends (Itami, 1987).

As one would note, the key to withhold against the decline (determined by the competitive forces inherent in the life-cycle perspective) is in the ability of the organisation to scan the environment for potential threats and opportunities, analyse this information for better control and coordination of its functioning, and take decisions which can focus on the multiplicity of the environment. A study of 107 successful and 54 unsuccessful companies showed that the former were consistently better in their use of information (scanning, analysis, control, communication, decision-making, etc.) than their counter parts (Miller and Friesen, 1983). Moreover, this difference was apparent across all stages of organisational lifecycle (birth, growth, maturity, revival and decline). In other words, corporate success depends on learning from the environment, one's competitors and one's own actions. Or as De Geus (1988) observed: "the ability to learn faster than your competitors may be the only sustainable competitive advantage."

## 2. Organisations tend to get trapped in their past success patterns, and lose their flexibility to change and adapt.

It would not be entirely accurate to describe organisations as failure-prone. Ironically, the underlying strategies and processes to both corporate successes and failures are often substantially similar (Hedberg, 1981; Miller, 1990). Miller (1992) noted:

"In fact, it appears that when taken to excess the same things that drive success - focused, tried-and-true strategies, confident leadership, galvanized corporate cultures, and especially the interplay of all these elements - also cause decline."

For instance, the phenomenal growth of People Express in the early 1980s was built on its entrepreneurial strategies, and unusual culture. It expanded its market share by following a lowmargin high volume strategy. It created an informal organisation, with only three hierarchical layers, and keeping the employees motivated by making them share-holders, and by following a strict policy of promotion from within. In a matter of just five years, it had become the fifth largest domestic airlines in US, with an annual sales of \$1 billion. However, when competition came, these same qualities which had borne it to success, also became the reason for its crash landing. Its low margins and entrepreneurial acquisitions did not leave much resources to invest on the infrastructure and match competitors on quality. The policy of internal promotion left the organisation with inexperienced people with little technical expertise to handle critical functions like scheduling, maintenance, etc. And under the pressure of competition, its informal culture could not maintain efficiencies. In 1986, five and a half year after its first flight, People Express had piled up huge losses, and had to be sold off for just \$300 millions (Byrne, 1983).

To understand why success breeds failure, it is necessary to look at how organisations use their success. Success is a learning experience for organisations: it reinforces behaviours which they must practice to succeed. Correspondingly, organisations "programme" themselves around their successful strategies and processes so that they can consistently replicate their success experiences. One way in which this programming takes place, is at the informal cultural level. Corporate success produces strong cultural norms, based on the belief in the correctness of one's actions. Such strong cultures, however, are also resistant to

change, and reduce the flexibility of organisational responses. Kotter and Heskett (1992) found that low performing cultures generally were quite strong, and invariably had a history of past success. As Weick (1985) noted:

"A coherent statement of who we are makes it harder to become something else. Strong cultures are tenacious cultures. Because a tenacious culture can be a rigid culture that is slow to detect changes in opportunities and slow to change once opportunities are sensed, strong cultures can be backward, conservative instruments of adaptation."

The other way in which programming of success takes place is through bureaucratisation. Successful organisations formalise their effective practices and procedures, start operating around assured markets segments, standardise their successful products and services, make capital investments in tried and tested technology to achieve economies, and so on. They also create inventories, buffers and slack resources to insulate their core activities from getting affected by environmental fluctuations. This process of bureaucratisation is further enhanced because success brings growth, and to cope with growth, organisations need to bring in people who can rationalise and stabilise organisation's activities. Thus, they hire and select people whose major competence is in maintaining status quo, rather than in bringing about change (Kotter and Heskett, 1992).

In either case, the programming of success-routines has an unfortunate consequence for the organisation: it reduces the need to make a conscious analytical response to environment, and so, organisations lose touch with their environment. They become less sensitive to the competitive demands and appear to operate in an imagined environment. For the successful companies, their past learning becomes a hinderance to new learning necessities - they must "unlearn to learn" (Nystrom and Starbuck, 1984). Even when they perceive a need to change, they are constrained by their self-programming, and by their belief in the rightness of their approach (Starbuck, Greve and Hedberg, 1978). This is true not only of the bureaucratised companies, but also of the highly entrepreneurial organisations. Positive past performance seems to be a major stumbling block in the process of strategic reorientation (Lant, Milliken and Batra, 1992). Hyderabad Aliwyn, an Indian company, for instance, was a pioneering organisation, which was the first in the country to produce double decker buses, refrigerators, and quartz watches. It had technical collaborations with companies like Mitsubishi, Hitachi, Seiko and Nissan, and had an impressive product portfolio comprising of buses, watches, refrigerators, sewing machines, LPG cylinders, compressors, office furniture, etc. Having learnt that success lies in diversifying and growth, the company kept following a target of 30% growth, even though, in the process, it spread itself too thin, and started facing problems of coordination and integration of its operations. By 1993, its various divisions were in loss, and the company was up for sale.

### 3. Inappropriate strategic biases and "mental models" hamper with the processes of strategic flexibility and reorientation.

Mental models are an essential feature of any kind of strategic action. They help one in making sense of and coping with complex and abundant data. While they provide a focus and cognitive anchoring for perceiving, analysing and deciding about strategic issues, strongly held mental models also influence the managers to overlook important environmental changes.

As would be apparent, strategic biases and "mental models" also result from past successes. It is useful to treat this point separately, however, since they can also arise out of other factors, e.g., CEO's personality, composition of top management team, corporate history, etc. (Bantel and Jackson, 1989; Wiersema and Bantel, 1992; Lant, Milliken and Batra, 1992). The research on human cognition also suggests that there are human limits to accurate comprehension of the reality, and it is natural (and inevitable) for people to create models of reality to interact with. Kelly (1955), for example, found that most people use just about fifteen personal constructs (mental/ perceptual pigeon holes) in making sense out of reality. Similarly, Miller (1956) proposed the "magic number seven plus minus two" as the limiting capacity of number of variables a person can attend to at a time. In the context of managerial decision-making, one of the unsettling implication of March and Simon's (1958) concept of "bounded rationality" is that, not only managers do not, but also can not, make decisions based on a complete and accurate picture of the reality. Rather their decisions are based on their, to use March and Simon's phrase, "limited, approximate, simplified model" of the reality.

There are three ways in which mental models, held by managers in the strategic apex, influence organisational decisions, and can create mismatch between the environmental demands and strategic action. Firstly, mental models determine the nature of "relevant" information, which should be considered for strategic action. Managers focus their attention on information which supports, or is relevant in terms of, their current mental model, while ignoring other potentially important environmental changes (Kiesler and Sproull, 1982; Whetten, 1988). For example, in focusing all its efforts on the mainframe market, IBM failed to acknowledge the market potential of personal computing, and, during the 1980s, lost its dominance to new newcomers like Apple and Compaq.

Secondly, mental models determine how the received information will be analysed and interpreted. Thus, if mental models so dictate, even if changes in external environment are noticed, they may be interpreted as "temporary fads" not requiring strategic change (Dutton and Jackson, 1987; Sapienza, 1987). When Singer's sewing machines' sales dipped down, for instance, company's incumbent management found it difficult to believe that the nature of market had changed. Even when the trend was repeated in Europe, it was attributed to the communist victory in France, and was seen as a passing phenomenon (Gopinath, 1991).

And lastly, mental models also limit the range of options which managers can exercise in the change process.

They describe what actions are "possible", "important", or "necessary", and so circumscribe the range of alternative managerial and strategic solutions (Bateman and Zeithamel, 1989; Duhaime and Schwenk, 1985; Dutton, Fahey and Narayanan, 1983; Mintzberg, Raisinghani and Theoret, 1976). Atari's success in the video-games market during the late 1970s, for instance, was built on a mental model which gave importance to marketing and sales promotion. Faced with increasing competition, it recruited more marketing people, and gradually increased its advertising revenue from \$6 millions

in 1977 to \$125 millions in 1982. In the process, it neglected the engineering, software and product-development functions. It lost to its competitors because of its inability to bring out new products in time, and in 1982, for the first time since its meteoric rise since 1977, it registered losses of more than \$100 millions (Hector, 1983).

Obviously, organisational decline follows when mental models fail to change in response to the feedback coming from the environment (Hedberg, Nystrom and Starbuck, 1976; Hedberg and Jonasson, 1977). One must admit that often it is difficult for the members of the strategic apex to decipher whether a downward performance trend is due to cyclical dip or to qualitative change in the environment. For instance, Premier Automobiles (India) was amongst the worst recession-hit companies during the early 90s because of its inability to detect the early warning signals of change. Even when sales dropped, it kept up the production. In fact, it even invested in increasing its capacity, which became a financial bottleneck later for producing diesel-driven cars, for which the market was opening. This resulted in large inventories, cash-flow problems, a loss of more than Rs 200 millions, and a loss of market share from 23% to 11%.

There are also a number of reasons why mental models are resistant to change. It often requires dramatic changes in the environment to force organisations to question and scrutinise their mental models (Ginsberg, 1988; Starbuck and Milliken, 1988). This, unfortunately, is not always possible, since, mental models often remain well-protected by the environment and the organisation. Often a munificent or benevolent environment may shield the models and confirm outdated solutions and actions. Hambrick and D'Aveni (1988), for instance, noted that significant weaknesses were apparent in failing companies even 10 years before they go bankrupt; but they would go unnoticed because the environment remained either munificent or benign. Often shortterm growth and profitability can hide significant weaknesses, and in the process, confirm and strengthen outmoded models.

Moreover, the organisational information processing mechanisms often filter useful information which can bring changes in the operating models. In formalising their information processing and reporting procedures, organisations inevitably tend to focus on discrete, quantifiable, and communicable events of certain magnitude and nature. This limits the probability of relevant information from reaching the managers and forcing them to change their mental models. Starbuck, Greve and Hedberg (1978) noted that the efforts to focus only on tangible and quantifiable information often cause a neglect of more relevant issues:

"Many unanticipated events are never perceived at all; others are perceived only after they have been developing for some time... organisations tend to overlook the earliest signs that crises are developing, because the earliest signs are poorly observed variables and they are communicated orally in informal reports."

Organisations fail, thus, when they are unable to add to, change or develop new and different mental models in correspondance with a changing environment. Or in other words, the failure of organisations is often rooted in their failure to learn new ways of perceiving the reality in which they operate.

#### 4. When faced with threatening circumstances, organisations respond by adapting a rigid posture, which decreases their chance for successful adaptation and survival.

One would anticipate that an experience of a crisis or threat would normally encourage, or even force, an organisation to review its strategies, processes and practices. In fact, many a times this does happen. For instance, the tough competition which Xerox had to face during 1975-85, made it more conscious of quality and customer needs. More often, however, organisations respond to crisis by behaving in just the opposite manner: they become more rigid, and predisposed to rely more and more on previously learned dominant response patterns (Staw, Sandelands and Dutton, 1984). While this may be a useful strategy to meet the demands of an incrementally changing environment, in conditions of radical change, this proves to be maladaptive, and further intensifies the threat.

Organisational responses to threatening conditions are very similar to how individuals and groups respond to crises. This is also natural, since, after all, organisations consist of people, and their actions are determined by individuals who constitute them, specially those who form the power coalition in the strategic apex. To understand how organisations respond to threats and crisis, it is necessary to understand the behaviour of individuals and groups under similar conditions.

One major impact of environmental threat on individuals and groups is on their information processing capacities. Numerous experimental and field studies on human cognition (e.g., Postman and Bruner, 1948; Postman and Brown, 1952; Menninger, 1952, 1954; Easterbrook, 1959; Broadbent, 1971; Eysenck, 1976, etc.) have shown that under stressful conditions, individuals find it difficult to differentiate and discriminate among elements of their experienced reality. They tend to narrow their range of perception, ignore cues which are peripheral (i.e., "peripheral" to what they consider central), and perceive and respond to the unfamiliar reality in terms of their previously-held "internal hypotheses", which may no longer be applicable under the new circumstances. Studies on policy making behaviour during international crisis (e.g., Snyder and Paige, 1958; North et al, 1963; Holsti, 1964, 1971; Paige, 1972; Smart and Vertinsky, 1977, etc.) also substantiate these

findings. They showed that under crisis situation, policy makers tended to simplify and stereotype their assessment of the situation, considered fewer alternatives and consulted very selectively, soliciting information only from those who had similar perceptions and information-sources as themselves.

Studies on group dynamics under stressful conditions (e.g., Schacter et al, 1954; Janis, 1972) also replicate similar pattern. They showed that against an impending threat, groups tend to centralise their leadership and try to maintain cohesiveness by self-censoring those beliefs and information inputs, which are divergent to the group norms (even though these inputs may actually be critical for effective action by the group). Staw, Sandelands and Dutton (1981) suggested that under an external threat, groups operate with an assumption that it is necessary to remain cohesive and to have a leader; this creates impediments in the free-flow of information among members, and a constriction of freedom of individual members. They noted:

"The group will seek consensus and in so doing will generally support the policies and position of existing leadership. Reaching consensus, however, will often entail the restriction of information, ignoring divergent solutions and downplaying the role of deviant positions. Consensus seeking also involves a constriction of control, such that the opinions of dominant members may prevail and their influence may become centralised. Such changes in information and control processes may, of course, lead to faulty group decision making processes."

It is not difficult to see how these individual and group level processes get transferred to organisational level functioning. Many studies (e.g., Rubin, 1977; Pfeffer and Leblebici, 1978; Starbuck, Greve and Hedberg, 1978, etc.) have shown that faced with environmental threats, organisations tend to emphasise control over effective information-processing and problemsolving. They become more centralised in their decision making, develop taller hierarchies, standardise their activities, and routinise their practices. Even though their information search may increase, it fails to yield new and genuinely novel alternatives, because information sources are selectively exploited. Moreover, the standardisation of their procedures merely yields more-of-the-same-kind of information, and it is interpreted in the same old ways (Starbuck, Greve, and Hedberg, 1978).

In other words, when faced with threats and novelty, organisations tend to behave precisely in the manner in which they should not. Bozeman and Slusher (1979) summarised this paradoxical and self-destroying response of organisations:

"Scarcity-induced stress cause organisations to behave as if complex, dynamic and interrelated environments are in fact simple, static and unrelated. These behaviors include narrower domain definitions, reductions in labor intensive technology, increasing specialisation of technologies, and more mechanistic structures with tighter administrative control. The public organisation's turbulent environment is essentially demanding an increased domain. However, the organisation's repense is to constrict its domain."

III. IMPLICATIONS

It is clear from the preceding discussion that the causes of corporate failures lie more within the organisations than outside them. While external events may trigger a crisis, it is the nature of organisational response to these events which determines their success or failure. The reasons for corporate failures, discussed in the paper, also described the maladaptive organisational responses in the face of a changing environment. As could be seen, one common theme which circumscribes these responses is the inability of the failing organisations to develop and use new knowledge and competencies for developing new adaptive solutions. That is, organisations fail when they don't know how to learn and acquire new perspectives and responses, and to reorient themselves to the emerging environmental demands (see Table 1.1).

REASONS FOR CORPORATE FAILURES	UNDERLYING LEARNING DISABILITIES
1. Life-Cycle Decline	Inadequate environmental scanning, and internal competency-building
2. Trapped by Past Success	Complacency and arrogance leading to rigidity and lack of openness to new knowledge.
3. Inappropriate Strategic Biases and "Mental Models"	Lack of self-critiquing and self-reflection causing misalignment with the environment
4. Rigidity in Response to Crisis	Defensive and self-destructive routines

and practices hampering with adaptive response.

Table 1.1

One can also speculate about the required managerial actions and mechanisms, which are necessary to overcome these learning disabilities. Firstly, as was discussed, organisations become failure-prone because they lose touch with their environments. To counter this tendency, organisations need to develop environmental learning mechanisms, which can bring in new information on a continuous basis. Regular and institutionalised practices of customer-feedback surveys, benchmarking, technological collaborations, competitive analysis, etc., can be useful sources of new learning for the organisation, and help it to realign itself with the new needs and challenges.

Secondly, organisations can themselves generate new and relevant knowledge by consciously investing in the internal development of new competencies. Internal competency building activities focus on creating new organisational skills and expertise by enabling its people and systems to learn through experimenting and acquiring new knowledge. For instance, the organisation may invest in technology development by an increased focus on R&D and product development efforts. Similarly, it may build new competencies through activities like training, strategic job rotation, creating a new competency-base by redesigning its recruitment practices, and other innovative human resources practices.

Acquisition and generation of new knowledge and skills, however, does not ensure that they will be necessarily used for organisational renewal. Organisations also need self-critiquing mechanisms to create receptivity to divergent perspectives. Forums for post-project appraisals, organisational diagnostic studies, executive retreats, OD exercises, etc., are some of the common and widely practiced ways in which organisations force themselves to self-reflect. Such activities also help the organisations to use the resources of their own "loyal opposition" (Toffler, 1985) to create new corporate visions and mental models.

Lastly, organisations do not change, unless they have a direction to change. New knowledge - acquired from the environment, or developed internally through competency building and selfreflection - can be quite an unsettling experience. In the absence of a vision for transformation, it can even make the organisations more defensive and rigid. Organisations, therefore, also need to develop envisioning mechanisms to help its members look beyond the existing reality. For instance, if the leadership processes in the organisation emphasise innovation and transformation over conformity and obedience, it would encourage its members to be more receptive to change. Similarly, empowering employees for experimenting and risk-taking would make them more attuned to developing and participating in new corporate visions.

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