Executives’ Responses to Crises, Threats, and Potential Adversities: A Process Explanation

George P. Huber

The University of Texas – Austin
Shortcomings of the literature on responses to adverse situations

- Threats and threats
- Threats and crises
- Misapplied theories
- Lack of a classification system
- Minimal attention to processes
Types of Adverse Situations

potential adversities
time-restricted threats
control-restricted threats
crises
How do execs choose response actions for Potential Adversities?
Examples of Potential Adversities:
Actions by alliance partner, competitor, union

Conflicting concerns:

1. “Carefully avoid any mistakes,” e.g. (a) inadequate/faulty preventive action or (b) harmful side effects of implemented action. [How? Employ “requirements” that must be satisfied.]

2. Choose and implement quickly, as (a) adversity might advance surprisingly fast and (b) costs of organizational uncertainty and delay. [How? Implement first-found satisfactory solution.]
Proposition 1

An executive’s process for choosing an action with which to prevent a potential adversity is to identify requirements on response actions and to accept for implementation the first-found action that is judged to reliably prevent the adversity and that satisfies all other requirements.
How do execs search for actions for responding to Potential Adversities?
Proposition 2a

To search for actions with which to prevent a potential adversity, an executive first initiates a search process that is known from experience to be rapid and low cost and that is thought likely to discover satisfactory actions that can be swiftly implemented. (Such as a routine.)
“A system that survives generally decides to use first the adjustment process that can be most immediately applied to relieve a stress or a strain produced by a stress and later those which are less quickly available” (Living Systems, Miller, 1978: 100).

“A system that survives generally decides to employ the least costly adjustment to a threat or a strain produced by a stress first and increasingly more costly ones later” (Living Systems, Miller, 1978: 100).
Proposition 2b

If search process 2a fails, the executive activates a more interactive, broad-ranging, and exploratory process, and – in the event of continued failure – increases further the intensity and scope of the search process to include novel or risky response actions.
If the search process in P2b fails to find a response action that satisfies the choice rule in P1, and if the understanding of the threat is unchanged, the situation changes from one of a Potential Adversity to one of a Time-restricted Threat.
What is a Time-restricted Threat?

A **Time-restricted Threat** is an adverse situation where the harm to the entity is “impending” (Staw, Sandelands, and Dutton, 1981: 502), is “about to occur” (*Random House Webster’s Unabridged Dictionary*, 2001).
How do executives search for actions with which to respond to Time-restricted Threats?
Proposition 3

An executive’s search process for preventing a time-restricted threat is to direct (1) review of those candidate response actions that were previously judged to reliably prevent the threat, but that were rejected because they did not satisfy all requirements and (2) identification of those actions that (if implemented) would not result in harm greater than that associated with the threat. (Lowering the organization’s aspiration level.)
How do execs choose actions with which to respond to Time-restricted Threats?
Proposition 4

An executive’s process for choosing an action with which to prevent a time-restricted threat is to choose for implementation the first-found satisfactory action that is readily available and that is believed not to lead to harm greater than that associated with the threat.

(Implementing lowered aspiration)
Types of Adverse Situations

✓ potential adversities
✓ time-restricted threats
control-restricted threats

 crises
Examples of Control-restricted Threats:

Performance decline resulting from changes in:

1. **markets** (Nike, Adidas, New Balance vs. leather; electronic news media vs. *Newsweek*);

2. **manufacturing technologies** (mass customization, manufacturing via printing);

3. **labor costs and availability**.

**Conflicting concerns:**

1. **risk** of major change versus

2. **risk** of not changing (delaying)
How do executives initially respond to Control-restricted Threats?
Proposition 5a

When faced with organizational decline resulting from an uncontrollable environmental condition, an executive initially directs the seeking of performance improvements through more numerous and more efficient tactical changes in operations, products, and markets.
“A system that survives generally decides to use first the adjustment process that can be most immediately applied to relieve a stress or a strain produced by a stress and later those which are less quickly available” (Living Systems, Miller, 1978: 100).

“A system that survives generally decides to employ the least costly adjustment to a threat or a strain produced by a stress first and increasingly more costly ones later” (Living Systems, Miller, 1978: 100).
Proposition 5b

If the initial tactical changes fail, the executive escalates efforts by directing implementation of more numerous, efficient, and varied tactical changes in operations, products, and markets and those changes in organizational architecture changes deemed useful.
“When search, using simple causal rules, is not immediately successful, we assume two developments. First, the organization uses increasingly complex (“distant”) search; second, the organization introduces a . . . third search rule: search in organizationally vulnerable areas” (Cyert and March, 1963: 122).
How do executives search for strategic changes as responses to Control-restricted Threats?
Proposition 6

If aggressive tactical actions do not result in a satisfactory performance improvement, a surviving executive (or the superseding executive) initiates or authorizes searches for new (to the firm) strategic features (e.g., products, markets) that are suitable for the firm and that do not suffer from the uncontrollable environmental condition.
How do execs choose response actions for Control-restricted Threats?
Proposition 7

An executive’s process for choosing an action with which to escape an uncontrollable environmental condition is to accept for implementation the first-found strategic change that will enable the firm to escape the environmental condition and that satisfies all other requirements.
If the search process in P4 fails to find a response action that satisfies the choice rule in P5, the situation changes from one of a Control-restricted Threat to one of a Time-restricted Threat.
Types of Adverse Situations

- potential adversities
- time-restricted threats
- control-restricted threats
- crises
What is a Crisis?

A crisis is a calamity that is in effect, the harm is impinging on the entity. It is a condition of “instability” (Random House Webster’s Unabridged Dictionary, 2001), rather than future instability.
Examples of Crises

(1) We’ve been shipping contaminated food.

(2) The city’s Pacific beach is awash with our animal fat (soap manufacturer).

(3) A record snowfall caved in the roof of the Baltimore and Ohio Railroad Museum while it was used as a storage site for hundreds of art works to be displayed in a major art show.
How do executives respond to Crises?
Proposition 8

When confronted with a crisis, an executive rapidly initiates (1) a delegation of tasks for controlling the negative outcomes associated with the losses and (2) implementation of control mechanisms to ensure that the tasks are carried out rapidly and reliably.
Types of Adverse Situations

- potential adversities
- time-restricted threats
- control-restricted threats
- crises
The End
A **time-restricted threat** is an adverse situation where the harm is “impending” (Staw, Sandelands, & Dutton, 1981), is “about to occur” (*Random House Webster’s Unabridged Dictionary*, 2001).

A **crisis** is a “calamity” that is occurring, that is impinging on the entity; it is a “condition of instability” (*Random House etc.* etc., 2001), rather than future instability.

A **control-restricted threat** is an adverse situation that is uncontrollable (Gilbert, 2006; Jackson and Dutton, 1988; Thomas, et al., 1993). It cannot be prevented, but it may be escaped.

A **potential adversity** is a adverse situation that is not impending, that may still be obstructed or escaped.
“A system that survives generally decides to use first the adjustment process that can be most immediately applied to relieve a stress or a strain produced by a stress and later those which are less quickly available” (Living Systems, Miller, 1978: 100).

“A system that survives generally decides to employ the least costly adjustment to a threat or a strain produced by a stress first and increasingly more costly ones later” (Living Systems, Miller, 1978: 100).
(1) “Search in the neighborhood of the problem symptom” and (2) “search in the neighborhood of the current alternative” (Cyert and March, 1963: 121).

“When search, using simple causal rules, is not immediately successful, we assume two developments. First, the organization uses increasingly complex (“distant”) search; second, the organization introduces a . . . third search rule: search in organizationally vulnerable areas” (Cyert and March, 1963: 122).
Balanced perspective

(1) The executive is the entity at the nexus of the organization’s stakeholder network – a position having considerable information-based power.

(2) This location results in the executive negotiating and initiating a large proportion of the organization’s responses to external demands.

(3) The executive is the final arbiter when subordinate executives cannot agree on action.
Balanced perspective

(4) Few important organizational actions are not sanctioned by the executive.

(5) The executive, more than any other entity, is held accountable by stakeholders and society for the organization’s performance and actions.

“We focused on the CEO as the focal point because he or she is most responsible for taking or initiating action in response to strategic issues” (Plambeck and Weber, 2009, *Organization Science*, 20(6): 999).
Possible Practical Uses

1. Serve as an aid to others* attempting to understand the meaning of an exec’s actions.

2. Serve as an aid to others* attempting to influence the development of an exec’s actions.

3. Serve as guide to an exec’s current/likely actions so as to enable others* to more effectively create prescriptive procedures for avoiding possible dysfunctional aspects of these current/likely actions.

* (1) consultants, researchers; (2) associates and other would-be advisors; (3) researchers and consultancies.
Potentially Applicable Theories

escalation-of-commitment
institutional theory
living systems theory, learning and routines
prospect theory
rational choice
regulatory focus theory
threat-rigidity theory