



B. Business Impact

Challenges for Tomorrow's Management

Crisis, inertia, uncertainty and management

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Abstract

This article explores the relationships between the concepts of crisis, inertia, uncertainty and management, and specifically discusses the apparent paradox between inertia, which is an essential attribute of organizations, and the uncertainty provoked by the Covid-19 crisis. The central idea is that designing an organization or strategy capable of anticipating this type of crisis is an absurd project.

Keywords: Crisis, Inertia, Uncertainty, Management, Strategy

Crisis, inertia, uncertainty and management

Many in Europe and elsewhere argue that the Covid-19 pandemic – and even more so the shutdown of the economy resulting from it – is a unique opportunity to drastically reform business practices, management, strategic thinking, and therefore both the economy and society. Based on the “one should never waste a crisis” mantra (and the inevitable Chinese ideogram designating both “danger” and “opportunity”), they postulate that we have turned a major corner and that the “new normal” will differ profoundly from the old one.

However, we can reasonably assume that organizations will not change radically. As a matter of fact, among the ideas that run through management literature, organizational inertia is perhaps one of the most essential. From Cyert and March's (1963) behavioral theory of the firm to Kim and Mauborgne's (2005) Blue Ocean strategy, from March's (1991) exploration/exploitation dilemma to Johnson's incrementalism (Whittington et al., 2020), and from DiMaggio and Powell's (1985) institutional theory to Christensen's (1997) notion of disruption, we find the same observation: one of the main attributes of organizations is their inertia.

Inertia and Organization

Many works in organizational theory, business strategy and management of innovation rest on the idea that organizations are systems that are always seeking to apply the same routines, replicate recipes and perfect procedures, at the risk of locking themselves into strategic drifts. Above all, what an organization wants is to do its job; above all, what each of its functions wants is to function. Because of this conservatism, one frequently recommended strategy consists in challenging the status quo and moving away from the crowd in order to shift the competitive field. However, this ends up creating a new inertia, which in turn locks the innovator into its own path (Christensen, 1997).

How can we maintain this inertia when, by nature, the competitive, regulatory, technological and environmental context is changing? Cyert and March (1963) have shown that a healthy organization needs some “slack”, that is to say unallocated resources that make it possible to react to unforeseen events and muddle through inevitably imperfect processes. If collective action relies on optimized systems, the slightest grain of sand can block the machine. This is the reason why it is wise to always ensure a surplus of ordinary skills, multiple procedures, a budgetary mattress, a redundant workforce, and even to make sure that all of this slack, in turn, is embedded in the routines. However, the sound management taught in schools of course consists precisely in eliminating slack, optimizing systems, choosing the most efficient approaches and getting rid of everything that is not absolutely necessary. The hunt for waste, the best use of resources and the clarity of management lines require the primacy of efficiency over effectiveness. Between two investment projects, the more profitable one will be preferred, and between two managers, the more frugal will be promoted. As a consequence, the overarching responsibility of a strategic leader consists in arbitrating between sound management and adaptability, in maintaining ambiguity in the most optimized processes, and in avoiding day-to-day business imperatives prevailing over the possibility of the unexpected.

More detailed analyses (Saussois and Laroche, 1991) have highlighted the detrimental role of faulty learning, a classic in organization theory: a system which has been functioning for

a long period of time demonstrates strength in appearance, when in fact it is approaching collapse. Even if the repetition of the daily successes of an organization gives the impression of confirming its merits, it is precisely its optimization – sometimes through the normalization of deviance – that pushes it to its limit.

However, we should not forget that without inertia, an organization simply cannot function (Laroche, 1996). If you always had to reinvent everything, if everyone was in constant improvisation and innovation, interaction would be strictly impossible. If we can live and work together, it is precisely because our actions are predictable. The confidence we inspire depends on the inertia of our behavior. Our consistency defines our reliability. It is the very nature of collective action to build routines and habits, procedures and rules, repetitions and learning. According to the transaction cost approach (Coase, 1937), firms handle transactions in a more efficient way than markets: whereas market relations would imply a constant reconstruction of relations, firms, thanks to their stability and to their inertia, have enabled mass production and collective prosperity.

Inertia and Strategy

Likewise, continuity is the basic assumption behind all business strategy classic tools. The experience curve, PESTEL framework, BCG matrix, SWOT model or 5(+1) competitive forces (Whittington et al., 2020) rely on the hypothesis that the present – and sometimes even the past – is a good predictor of the future. If uncertainty is total, if the nature, extent and consequences of change are unknown, the concepts and models of business strategy, as taught in schools and universities, are simply useless.

In a totally unpredictable environment, the very notion of strategy makes no sense. By definition, strategy consists in allocating resources that commit the firm over the long term, in order to gain superior performance. If anticipation is impossible, engaging in an allocation of resources (whether human, financial, physical or technological) is just gambling, but certainly not strategy.

In fact, when uncertainty is ubiquitous, strategy must give way to survival techniques, such as anchoring, agility and imitation (Fréry, 2014):

1. Anchoring, like an offshore oil rig, consists in waiting until the storm calms down. While waiting for better days, one must set up a resilient organization that is capable of resuming its initial state once the pressure has dropped.
2. Agility is the exact opposite: like a cork floating on the surface, you let yourself be tossed around until stability returns, which notably involves the transformation of fixed costs into variable costs (thanks to outsourcing), in order to lower the break-even point.
3. Imitation starts from a simple observation: for a decision maker, the worst case is to be the only one to make a bad decision. Conversely, if everyone makes the same bad decision at the same time, accountability will be collective, and therefore much more acceptable. As a consequence, when placed in a context of high uncertainty, leaders tend to adopt some form of herding.

However, all this has nothing to do with strategy: anchoring opposes any evolution, agility consists in disallocating resources, and imitation is the negation of competitive advantage. These techniques can at best allow endurance, but they cannot lead to success. When

uncertainty reigns, when only survival counts, strategy is useless and success can only be fortuitous.

Trying to overcome uncertainty is an absurd project

All in all, can we say that the Covid-19 pandemic could have been much better anticipated, better prepared and better managed if our decision-makers had worked well, if the right strategies had been deployed and if our organizations had been well designed? Can we say that our managers have betrayed their role as strategists, have forgotten the imperative of slack and have favored immediate savings?

Nothing is less certain, because trying to build organizations capable of overcoming uncertainty is an absurd project.

Nassim Taleb, the father of the Black Swan concept (2007) – a Black Swan is an event that suddenly makes all historical observations obsolete – stresses that Covid-19 is not a Black Swan, since comparable pandemics have already occurred (notably in 1918, 1958 and 1968), and that several experts, until recently, had identified the threat. If public and private organizations have been caught off guard, it is therefore not by surprise, but because of blindness or amnesia.

Now, what could a strategy designed to take an event of this nature into account have looked like? How should it have been taken into account in calculations of net present value, in extrapolations of the experience curve or in the measurement of competitive rivalry? The sheer enormity of this scenario would have dwarfed any other consideration, until monopolizing all the resources: only the survival plan would have been imposed. In short, it would have been a perfect example of anti-strategy.

What should have been done to ensure the slack capable of withstanding an event of this magnitude? What resources should we have safeguarded to resist a hypothetical epidemic, of which it was impossible to foresee the gravity, date or nature? Besides, why should we limit ourselves to a pandemic? Many other hazards threaten us: natural disasters (linked to global warming or not), nuclear conflicts, cyber-attacks, chemical or biological warfare, and so on (and the “and so on” is the most important entry in this list). All of these perils require different preventive measures and involve fencing specific resources. All our efforts would therefore be dedicated to anticipating future crises, and eventually this principle of prevention would make our present unliveable and the pursuit of happiness suspect. As Aldous Huxley said, “Medical science is making such remarkable progress that soon there will be hardly a healthy human left.”

Conclusion

Under these conditions, what can we recommend for a post Covid-19 era? The principle of slack is relevant for organizations facing strategic uncertainties that could be described as “normal”: a new competitor, customer default, technological innovation, regulatory changes or corporate restructuring. In all these situations, managers must preserve slack, possibly against their managers and especially their shareholders. On the other hand, this principle is irrelevant when uncertainty reaches the magnitude we are currently experiencing. It is not the responsibility of business managers to anticipate uncertainties of this nature. What should the CEOs of Air France, Club Med or Accor have done to protect their companies from the risk of a total loss of their revenues for several months? They

would have caused an equally damaging paralysis. We must remain modest about the scope and ambitions of our management tools: they are designed to improve everyday life – which is already a lot – but not to cope with monstrous events.

Covid-19 is a tragedy for each of its victims, even if other pandemics have historically been much more deadly. What constitutes a completely unprecedented historic event is not this disease by itself, but the global shutdown of the economy that an escalation of decisions – and a lack of decisions – has triggered. Never in history have more than 2.5 billion people been placed on lockdown, and no one can anticipate what the consequences will be. In fact, what we are most likely to suffer from is not illness, but our attempts to escape it.

However, humanity has experienced far more devastating crises, including two world wars twenty years apart, not counting the black plague, smallpox and the Spanish flu. However, each time, the economy ended up regaining its place. Everyday life gradually won out over the exceptional. Homeostasis imposed itself.

Management is the conduct of collective action, and the ultimate goal of business strategy is progress. Since crises are inevitable, we must remain humble but determined. Protecting ourselves from everything “whatever it takes” leads to hygienist absolutism, the consequences of which are worse than the causes. Facing the next shock, let us prefer action to precaution and the search for prosperity to the tyranny of abstinence.

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