Chapter 6
Managerial Reactions to Ambiguous Environmental Changes:
Attention, Reasoning, and Erratic Decisions

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ABSTRACT

Managers in organizations are typically faced with changing and ambiguous signals in their operating environment. Based on interpretation of these signals, managers react with appropriate strategies. This chapter presents critical organizational issues in decision making process and its outcomes, including the manager's selective attention, interpretation, and reasoning of uncertain operating environment. In particular, the chapter first discusses why individual managers in the same organization who are faced with same environmental changes may differently interpret threat and opportunity aspects of these changes. Second, the chapter links outcomes of such interpretation to investigate different types of organizational actions. Third, the chapter drives into a greater depth to explore how the manager's experience and characteristics of the environment affect forms of reasoning in interpretation process and performance of subsequent organizational actions.

1. INTRODUCTION

Organizations are required to adapt to environmental changes to survive and prosper. The adaptations are largely influenced by how managers interpret these environmental changes (Daft & Weick, 1984; Thomas, Clark, & Gioia, 1993). Managers in organizations are typically faced with challenges of interpreting changing and ambiguous signals in their operating environment. Based on their interpretation, managers formulate and implement appropriate strategies in response to these signals (Dutton, Fahey, & Narayanan, 1983). The effectiveness of these strategies on organizational performance is thus largely determined by the extent to which the strategies are fit with the environment (Miles & Snow, 1978). Because signals in the environment are often complex and ambiguous, managers appear to simply categorize

them into a salient form of either threats or opportunities (Dutton & Jackson, 1987). The importance of these categorizations lies in their link to strategic decision making process and subsequent organizational actions (Dutton & Jackson, 1987; Thomas et al., 1993). In addition to perceptions of the environment, actions of an organization are also influenced by its characteristics such as strategic orientations and resource slack (Chattopadhyay, Glick, & Huber, 2001).

Going more deeply into the decision making process, strategic decisions and organizational actions are often the result of the manager's attention, interpretation, and analogical reasoning (Dutton et al., 1983; Ocasio, 1997). Attention and interpretation are so intertwined that there is no meaningful distinction between them (Cho & Hambrick, 2006). Managerial attention to environmental changes strongly influences how firms behave (Ocasio, 1997). Attention refers to noticing and interpreting of various stimuli in the environment (Ocasio, 1997). Analogical reasoning is relevant when the present new situation that requires interpretation has both similarities and dissimilarities vis-à-vis the manager's prior experience. It builds on the manager's past experience in a similar circumstance to draw inferences about the present new and partially-known situation (Miller & Lin, 2015). In particular, managers focus on and respond to only certain aspects of their environment (Ocasio, 1997). Thereafter, they try to map their past similar experience onto the present partially-known situation to identify an appropriate analogy as a plausible inference for subsequent organizational actions.

High quality decision making and organizational actions via such attention and analogical reasoning processes are usually obtainable in stable and consistent environments (March, 1982). However, in reality, organizations seldom experience such environments as they usually have to adapt to ambiguous environmental changes. Strategic decision making, particularly in rapidly changing environments, can thus be highly unpredictable and, in response to these changes, is at times inconsistent. This inconsistency, at times even with limited new information, is simply because managers make erratic decisions (Mitchell, Shepherd, & Sharfman, 2011). These erratic decisions are influenced by cognitive and environmental factors.

This chapter presents critical organizational issues in the strategic decision making process and outcomes with respect to the manager's attention, interpretation, and reasoning of ambiguous environmental changes. In particular, we first discuss why managers in the same organization who are faced with same environmental changes may interpret threat and opportunity aspects of these changes differently, taking into account structural distance of the changes, perception of organizational capability, and domain-specific experience (Barreto & Patient, 2013). Second, we link outcomes of such interpretation to investigate organizational actions in terms of externally versus internally directed actions, taking into account organizational characteristics such as strategic orientation and resource slack (Chattopadhyay et al., 2001). Third, we drive into a greater depth to investigate how the manager's experience and environmental signals in terms of hostility and dynamism affect forms of reasoning in interpretation process and performance of subsequent organizational actions (Miller & Lin, 2015; Mitchell et al., 2011).

2. THEORETICAL BACKGROUND

According to attention-based view, firms can be viewed as systems of structurally distributed attention of individuals (Ocasio, 1997). Organizational behaviors are thus determined by how attention of decision makers in the organization is channeled and distributed. In particular, strategic choices of these decision makers depend on issues and answers that they focus their attention on. Such attention is associated with

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