



A grounded theory for resistance to change in a small organization

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Abstract *This paper focuses on the process that generates resistance to change in a small organization. We build a grounded theory that interprets resistance to change in terms of interdependencies between the characteristics of the economic environment and of the industry, the dispositions of individuals, and the patterning of their actions within the social network. These three levels of analysis are mainly investigated separately from one another in empirical studies. An Italian small manufacturing firm was the object of our field study. Observations, ethnographic interviews and analysis of documents were the techniques employed.*

Introduction

Organizations are distinguished by their day-to-day competence: that set of rules, practices, and routines that they deploy in order to achieve their goals and to solve problems, while claiming legitimacy from their environment. A lot of what occurs within organizations is neither the fruit of extraordinary processes or forces nor the product of any exceptional imagination, obstinacy or ability: rather it is the outcome of stable and recurrent processes linking the organizations to their environments (March, 1988). Often, what is referred to as change is a coherent set of responses by the different parts of an organization to the different parts of its environment. The process of change is thus incremental and diffuse rather than the result of “revolutions” or traumatic events (Cyert and March, 1963; Kraatz and Zajac, 1996). The two interdependent dimensions of change underlined by March (1988):

- (1) change as the effect of interaction with the environment; and
- (2) change as an alteration in the patterns of organizational behavior

have been mainly investigated separately from one another in empirical studies.

This paper aims to grasp the process that, by integrating interactions with the environment and patterns of organizational behavior, generates resistance



to change within a small organization. The study of resistance to change in a small organization is appealing since small organizations are usually regarded in organization and management literature as naturally inclined to change. Their political dimension would be expected to render them more agile, while any formal constraints upon them would be less binding (Best, 1990; Becattini, 1998).

Through observations, ethnographic interviews and analysis of documents, we formulated a grounded theory of resistance to change in an Italian small manufacturing firm. Our conjecture reveals a stable process that interprets resistance to change in terms of interdependencies between the characteristics of the environment, the dispositions of individuals, and the patterning of their actions within the social network.

This paper starts with a theoretical framework. Then the methods used and the specific organization are described. Our grounded theory of the process of resistance to change that emerges from the coding of the field notes drawn from observations and interviews and of the information contained in the documents is lastly shown and discussed.

Resistance to change: a theoretical framework

The issues of organizational change and resistance to change have received a lot of attention over the past decade. Organizational inertia as a means to preserve a particular course of action cannot be understood unless it is placed in relation to how change takes place (Isabella, 1990; Baker and Cullen, 1993; Kanter, 1995; Hendry, 1996; Wolfram Cox, 1997; Dent and Goldberg, 1999; Buchanan and Badham, 1999).

Organizational change has been studied at different levels and focusing on different aspects. One possible distinction relates to the level at which change is analyzed: a population of organizations; a single organization; the individuals within an organization. On this basis, we can identify three main research topics:

- (1) change that impacts on a population of organizations;
- (2) modalities and drivers of change within a single organization; and
- (3) disposition to change of individuals.

The first topic entails an examination of the way in which environmental changes condition the survival of organizations: the main references are the theory of population ecology and that of neo-institutionalism (Hannan and Freeman, 1977; Meyer and Rowan, 1977; Powell and DiMaggio, 1991). From an ecological perspective, organizations survive change when they have a fit with their environment. This fit is determined by a combination of several organizational characteristics such as the endowment, the imprinting, the capability and the positional advantage (Hannan, 1998). Only rarely can organizations develop a fit with environmental change. Structural inertia and reluctance to change are two basic assumptions of population ecology.

Neo-institutionalism examines changes to organizational practices that result from processes of imitation within an institutional field, rather than from environmental change (DiMaggio and Powell, 1983). The search for legitimation by institutions and the drive towards social conformity prompts organizations to adopt uniform structures and practices (Kraatz and Zajac, 1996). Inertia is produced as organizations tend to replicate structures and practices aligned with institutional requirements and not to search for new, autonomous solutions (Meyer and Rowan, 1977; Zucker, 1988). Those organizations that, rather than deviating, adhere to institutional specifications boost their capacity to find resources and to survive long-term.

A second research area focuses on change within single organizations. In general, as far as modalities of change are concerned, organizations change either rapidly and suddenly in the wake of breakthroughs that one may regard as “revolutions” (Gersick, 1991; Ford and Ford, 1994; Romanelli and Tushman, 1994), or adaptively and continuously (Cyert and March, 1963; Miller and Friesen, 1980; Kraatz and Zajac, 1996).

From a revolutionary perspective, the literature has identified the following drivers of change:

- The entrance of new actors, especially top managers, into situations of crisis (Gersick, 1991; Keck and Tushman, 1993; Romanelli and Tushman, 1994; Hendry, 1996).
- A decline in performance (March, 1988; Bolton, 1993; Miller and Chen, 1994; Romanelli and Tushman, 1994; Greve, 1998).
- Changes of various sorts in the environment (Kelley and Amburgey, 1991; Keck and Tushman, 1993; Romanelli and Tushman, 1994): technological discontinuities (Tushman and Anderson, 1986); changes at an institutional level (Oliver, 1991); changes in the structure of the industry (Lawrence and Dyer, 1983; Miner *et al.*, 1990).

A non-revolutionary perspective, focusing on small and continuous changes, deems organizations to be composed of parts that tackle one problem and one objective at a time in a disjointed and contingent manner (Cyert and March, 1963; Miller and Friesen, 1980). These authors emphasize how the different parts of an organization tend to generate short-term responses to “local” recurrent problems, such as those linked to the replacement of personnel, alterations to procedures, improvements in activities, shifts in technology and fluctuations in market requirements. Over time, given that the individual parts repeatedly modify both their goals and their relations with the environment, the organization as a whole also undergoes change. The substantial independence among the parts therefore generates a “knock-on” process of adaptation between units that are only loosely coupled.

A third research topic, at the micro-organizational level, deals with individuals’ motivations and their willingness to change. From a sociological perspective, resistance is a reactive process whereby actors who are bound by

power relations take steps to oppose actions undertaken by others (Jermier *et al.*, 1994). Individuals within a social network who claim to be open to new ideas and change can in fact act against change when they perceive that it would modify the extant relations (Macri *et al.*, 2001).

The perceptions of individuals also play a fundamental role in the process of change and thus in the creation of resistance. When perceived as a threat to one's security or ingrained habits, or even as loss of status or as fear of the unknown, a change will generate resistance (Neck, 1996). The association of change with loss of one's control, one's routines, one's traditions and relationships, is to be cited among the main motives for resisting change (Isabella, 1990; Kanter, 1995; Wolfram Cox, 1997). If the results of a process of change are linked to the perceptions of individuals, then the ability of management to communicate the goals of change and to provide motivation become important (Schein, 1992; Sillince, 1999). It is essential that change itself seems to actors to be both desirable and necessary, so that they support it rather than engaging in acts of sabotage. It is up to managers to formulate declarations of intent and explicitly to solicit the support of actors during the initial stages and then, subsequently, to proclaim the rules of change, and to negotiate one-off exchanges (Sillince, 1999).

Recently, the importance of psychological aspects in organizational change has raised a major new issue: the emotional capability of organizations as a resource that can be developed to facilitate change (Salovey and Mayer, 1990; Schein, 1992; Huy, 1999). Emotional capability translates, at the organizational level, the notion of individual emotional intelligence: that form of social intelligence covering the ability to monitor one's own emotions and those of others, to discriminate between them, and to employ the acquired information in such a way as to guide actions and thoughts (Salovey and Mayer, 1990). Emotionally intelligent individuals are able to recognize and to use both their own emotional states and those of others as instruments in solving problems and in orienting behavior.

According to the cognitive perspective, organizational change is never solely sociological or exclusively psychological, but results from a combination of the dispositions of individuals and of their interactions within the social network (Lippitt *et al.*, 1989; Neck, 1996). For Dent and Goldberg (1999), resistance to change relates back to a state of mind, a sort of self-fulfilling prophecy: actors who undertake or who are involved in change respectively expect or feel called upon to exercise forms of resistance, so that the outcomes of change are often compromised even before it is implemented. From this perspective, resistance arises from the inevitable clash between the management, who decides on the change, and the actors tasked to carry it through.

Most of the empirical studies on organizational change – quantitative research, essentially – have received criticism. Prigogine and Stengers (1984) and Gould (1985) have remarked on the insufficient attention paid to the process of change as against a strong emphasis on the drivers of change. Only a few studies have observed how and when an organization tackles change,

what constitutes the management's decision-making process, how any obstacles are removed, or how change is perceived (Isabella, 1990; Buchanan and Badham, 1999). Another dimension which appears to be left out of empirical studies is the psychological and emotional dimension of change, indissolubly linked to an idiosyncratic social network of interactions that can be comprehended only from within (Huy, 1999).

The aim of this paper is to describe, on the basis of qualitative research, the process through which a small organization generates inertia to change, and to formulate a grounded theory. Through the grounded theory we show how this process is jointly driven by the multiplicity of factors (interaction with the environment, attitudes and behaviors of individuals, and the patterning of their actions within the social network) identified in the literature as well as by their interdependence within a social setting. In this specific case, the theory constructed in the field is a multilevel theory (Klein *et al.*, 1999) that makes explicit links between aspects that, in the literature, tend to be studied separately, such as change as the effect of interaction with the environment and change as an alteration in patterns of organizational behavior.

Data and methods

This research, which may be classified as an ethnography, took as its object a small manufacturing firm that produces staircases. The company selection process set out to identify a mature manufacturing industry, consisting of small businesses not linked in an industrial district. This is of interest in itself for two main reasons. The former is that studies have mostly focused so far on small organizations belonging to networks and on small organizations within industrial districts and not on small independent organizations (Becattini, 1998). The latter is the widespread assumption that Italian small-scale enterprise possesses a high potential for innovation, as if it were an attribute of organizational size (Becattini, 1998; Nuti, 1992).

Within the industry identified (staircase manufacturing and distribution), the performance of the top five companies was examined and a series of preliminary open interviews was conducted with their commercial directors and entrepreneurs. According to the assessment of the commercial directors, these five top firms accounted for approximately 70 per cent of the industry's overall revenues in 1996. Six of the ten people interviewed named the leading company as the most representative of the industry as a whole, and we took it as the object of our research.

The field study entailed analysis of documents, participant observation, and ethnographic interviews, though participant observation was the main technique employed. The following documents were examined:

- (1) documents relating to the region's economy;
- (2) other official documents relating to the company's four main competitors, basically their product catalogues, brochures, and balance sheets;

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- (3) the company's internal documents, such as memos, calls for meetings, meeting excerpts, selling and delivery records, and consultants' reports; and
 - (4) the company's balance sheets.

The 13 actors comprising the top two hierarchical levels and the entrepreneurs were observed and interviewed[1] by two of the authors. Only one of the 13 actors was female. The average age was 39.7 years (SD = 10.5). In view of the small size of the company, only bluecollar workers, secretarial staff and managers' assistants were excluded from direct observation. We observed each actor over a five-month period, from March to July 1997, with observations spread over the eight working hours of the typical day, and the five working days of the week. There were a total of approximately 25 observation hours per actor, with periods of observation lasting one hour on average so as not to intrude on the actor's daily activities. We thus observed several actors every day, depending on their presence in the company. As a whole, about 350 hours were spent doing observations and interviews in the field, with the observation of single actors accounting for 325 hours, the observation of meetings accounting for six hours, and the interviews accounting for 15 hours (the 13 interviews lasted on average one hour each).

During the course of participant observation, we transcribed all the informants' actions and interactions (Glaser, 1978). During the ethnographic interviews, each informant was asked to describe and comment upon his own duties, actions and interactions (Lofland and Lofland, 1995; Golden-Biddle and Locke, 1997). The observations and interviews were compiled in the form of field notes. Every phenomenon occurring during the informants' interactions and autonomous work was then coded. Similarly, the information contained in the documents was coded, mostly paragraph by paragraph. The process of deriving categories, i.e. "recurrent themes", from the phenomena observed, from the interviews and from the documents, was driven by the criteria of open, axial, and selective coding (Strauss and Corbin, 1990; Golden-Biddle and Locke, 1997). The most recurrent themes that emerged from the coding of observations and interviews were: the informants' fear of switching organization, modalities of coordination, search for irreplaceability, propensity to delegate, cooperation and learning. Other categories, such as the characteristics of the economic environment and of the industry and the firm's performance, emerged mainly from the coding of the documents. Whenever possible, triangulation was applied (Glaser, 1978). Each of these categories will be discussed in detail in the following section.

Given the large number (2,365) of interactions observed, an additional coding was applied to the interactions contained in the field notes. We identified the following properties for each interaction:

- type of interdependence;
- nature;

- modality; and
- driver.

According to the type of interdependence, interactions were classified as sequential (specifying an input-output sequence of activities) or reciprocal (where one actor's outputs become another's inputs and vice versa) interdependencies. As for the "nature of the interaction" category, we distinguished between managerial, operational, and personal interactions. Interactions classified as operational were mostly requests for data or specific information (a client's name, the availability of a material, the cost of a component, etc.). Interactions classified as managerial, on the other hand, related to issues of coordination and task assignment. Interactions of a personal nature represented just 1.4 per cent of the total and were eliminated from our analysis. There were three basic modalities of interaction identified in terms of the communication means used:

- (1) written;
- (2) face-to-face; and
- (3) by phone.

Finally, interactions appeared to be predominantly task-related rather than social or emotion-related. We developed the following task-related properties for the drivers of the interaction:

- information/advice requested;
- information/advice provided;
- problem solution requested;
- problem solution provided;
- notification of a problem;
- technical help requested;
- technical help provided;
- progress monitoring;
- task assignment;
- taking charge of responsibilities;
- criticism of colleagues; and
- others.

The above-mentioned properties were used in a few descriptive statistics analyses.

Once a week we met to discuss the criteria used during the previous week in coding the phenomena observed in the field, the interviews, and documents. On these occasions, each observer coded a randomly chosen 30 per cent of the field notes and of the documents logged by the other observer. We found that our

coding criteria overlapped in 70 per cent of cases. We reconciled disagreements through discussion. Any phenomena or excerpts on which no coding agreement could be achieved were ruled out.

Resistance to
change

Empirical evidence gathered in the field

The economic and industrial environment and the firm's performance

The company under examination, with its 11.4 million Euro revenues in 1996, is the Italian industry leader. The firm's economic performance is modest, with net income running at under 2 per cent and, above all, it has been stable over the years examined. In the same year (1996) its four main national competitors had revenues ranging from 1.6 to 9 million Euro. The products of the market leaders are equivalent in all essentials. Over the last five years, no model with innovative features has been introduced. The industry suppliers supply basically raw materials and plain components, such as wood, steel bars, glass. No innovation can be expected on the suppliers' side. Similarly, no innovation can be expected on the customers' side: most customers are individuals or families who buy a staircase once or at most twice in their lives. The only long-term, stable customer relationships are with large distributors, who sell standardized products. In the case of customized products, the company under examination adapts the type of staircase to the customers' needs by assembling different components.

The company under examination belongs neither to an organizational network nor is it located within an industrial district. As for the economic environment of the company (located in the north-east of Italy), there are a number of indicators that point to its static condition (Farneti and Silvi, 1996; Salvi, 1997): the industrial system consists mainly of small businesses; there is a very low rate of export that reduces the opportunity for contagion from different environments (3.1 per cent in the first four months of 1997, as compared to a national figure of 9.9 per cent); the unemployment rates are highly seasonal (8.5 per cent on average); the level of education of the workforce is low (in 1991, only 3.6 per cent of the resident population held university degrees) and the proportion of managers and executives to the overall workforce is also low (0.6 per cent executives and 1.1 per cent managers in 1995).

Actors' fear of switching organization

The participant observations and the interviews make it clear that one of the features of this organization is its slow staff turnover, affecting managers, executives, and bluecollars. On the one hand, the difficulty in finding "acceptable" and "attractive" alternative positions in the surrounding area encourages the actors to stick with the organization and, on the other hand, the management says it is hard to recruit alternative staff. This is how the entrepreneur expresses it:

FE: There was one occasion when I had to find someone to fill a position of responsibility and I just had to choose between the people I had, even if I knew from the beginning that this was bound to fail. It's a tricky area: there are neither workers nor managers.

The 13 actors have accumulated scant experience in other organizations: on average, just 3.7 years ($SD = 2.2$), whereas the average tenure in the company observed was 13.1 years ($SD = 9.4$). The level of education is low: only the head of the manufacturing department has a university degree; eight have a high school diploma, while four have a junior high school certificate.

Looking at actors leaving the organization over the past ten years, only two exits have occurred. In 1995 the former commercial department manager quit his job after only two years complaining that instead of defining new international strategies and distribution channels, as he was supposed, he ended up managing basically the company's salespeople in their daily activities. In 1997 the commercial department manager's assistant quit her job after three years. She claimed that she felt isolated all the time, that all her initiatives were sooner or later rejected or boycotted.

Irreplaceability on the basis of technical skills

Limited local opportunities, combined with low levels of education, help to explain the actors' contingent behavior. They keenly defend those resources they possess: their working skills, i.e. individual practical, experience-based knowledge, which is neither encoded nor capitalized upon as organizational know-how. Any attempt to spread these individual practical competencies is resisted by the actors themselves, who regard it as a threat. The actors who have the highest organizational tenure consider themselves to be irreplaceable, expressing this as follows:

SM: I give the firm the input to make it work: if I don't tell people how to fill out an order, it doesn't get done at all. I'm putting together the logical sets (batching) for the bill of materials.

MT (observer): How come you draw up the lists, and not the engineering department?

SM: Simply that, given that I've 20 years' experience, the technicians turn to me for help.

Meanwhile, the entrepreneur acknowledges his inability to tackle the accumulated power of these actors:

FE: There are three who have been with us for a long time and who ought to be our mainstays: PR, DP and SM. They are all irreplaceable, because in practice they are the only ones who know what has to be done, but I don't know if they are really to be relied upon. SM, for example, is not just the Information System manager, because he helps almost everybody and acts as a bit of a guide really . . . Then SM was concentrating round himself so many roles and had become an extremely dangerous person . . . Pretty much the same applies to the other two.

Propensity to delegate

If operational competence is used as the main tool to make others dependent and to maintain one's own irreplaceability, the process of delegation is experienced as highly threatening in as much as it can expropriate actors of their irreplaceability and lessen their defection threat. The field notes show that those actors who were the first to join the organization and now hold positions of responsibility have raised a high "technical fence" preventing those who

arrived later from gaining access to key resources. As a result, new entries remain mere executors of parcelized tasks:

SM: For my part, I find it hard to get someone else to do a job, because I find it hard to trust them; I spend twice as much time just explaining the task to them, than if I simply went ahead and did it myself. I also have to check that the procedures have been followed and properly respected.

FE: In terms of the Accounting Department, the situation is highly risky, given that it's all in the hands of PR. BW is also a bit pivotal, and hasn't passed on his skills to anybody. He says he goes on trips alone on economic grounds and that all his appointments and contacts are logged on the computer. But the fact is that he hasn't brought anyone on.

In addition to that it is worth noting that those actors occupying the top hierarchical levels tend to exclude from the selection process any individual possessing a skills profile or potential for development that appears threatening. As a result, new appointments are to a large extent dictated by considerations of a particularistic nature. The actors appointed are relatives, friends, children of friends or other people willing to accept a tacit collusion pact and who are unlikely to perform highly. The peculiar and most striking feature of the selection criteria is the presence of family groupings in the organization, namely pairs of relatives in the engineering department, in the accounting and commercial areas.

Cooperation among actors and shared learning

Throughout the entire observation period, only two scheduled meetings were noted. Even informal meetings do not appear to represent a familiar form of interaction within this organization. The actors deem their activities to be essentially autonomous, and they show diffidence towards other forms of interaction:

BW: People don't feel a great need to liaise, because everyone here has their own work to do. The time for meetings can't be found, we never meet up and, besides, we never really tackle the issues at our meetings, which don't always follow any logical thread. Luckily, the new Information System has enabled me to reduce my interactions with the others even further.

The data on interactions confirm this lack of cooperation, expressed in terms of the volume of reciprocal interdependencies between managers. The prevalent interactions are operational ones (60.2 per cent), focused on the resolution of contingent practical problems. Reciprocal interdependencies, relating to managerial issues, account for 10.2 per cent of the total (Table I).

	Sequential interdependencies	Reciprocal interdependencies	Total
Operational interactions	45.9	14.3	60.2
Managerial interactions	29.6	10.2	39.8
Totals	75.5	24.5	100.0

Table I.
Contingency table between nature of interaction and type of interdependence

If we look at how both managerial and operational reciprocal interdependencies are spread throughout the observation weeks, we can observe three peaks: the first at about the third week, the second between the eighth and the ninth week, the third between the sixteenth and the eighteenth week (Figure 1).

Most of the reciprocal interdependencies occurring in the third week are due to the following events: the evaluation of a new Belgian wholesaler by the commercial department managers BW and SR; a problem with a strong delay in the delivery of staircases that causes a great deal of discussion between the manufacturing manager, the general manager and the marketing manager; a problem with a set of defective staircases for the foreign market that trigger many exchanges between the manufacturing manager and the German sales manager. Between the eighth and the ninth week other events trigger reciprocal interdependencies: the need for new procedures to communicate delays in deliveries to customers dealt with by the entrepreneur and the marketing manager; problems in the French and German distribution channels for which the export sales manager, the marketing manager and the German sales manager search for a solution; the discussion among the entrepreneur, the general manager and the marketing manager about how to keep a large share and to oppose initiatives by competitors in the Polish market. Finally, between the sixteenth and eighteenth week reciprocal interdependencies are mainly due to: legal problems with a customer who has sent back a staircase (the entrepreneur and the marketing manager first, then the engineering manager, look for a solution); decision to accept a small lot of special staircases by a special client (the marketing manager, the domestic sales manager and the manufacturing manager meet to discuss the issue); problems with some shipping orders in the domestic market and management of customer complaints (within the commercial department).

Every few weeks (we may say about every other month) the need for cooperation “blows up”: reciprocal interdependencies within a same

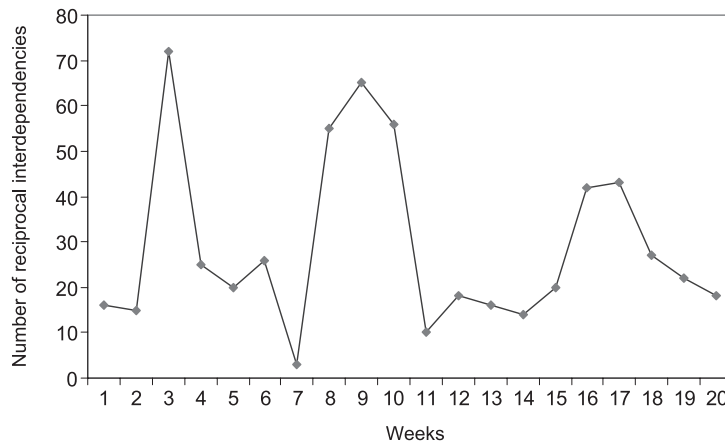


Figure 1.
Distribution of
reciprocal
interdependencies by
week of observation

department and between different departments increase as a consequence of pushes from the outside (basically problems with customers and suppliers and responses to competitors' actions). As soon as specific problems that create operational exceptions are solved, however, cooperation is no longer needed and reciprocal interdependencies fall down.

Formulating a grounded theory for resistance to change

The categories that emerged from coding the phenomena have been transformed into variables and connected to form a grounded theory that takes cooperation among the actors as its core variable. The resulting map (Figure 2) represents the process which hampers change within the organization in question, under the conditions observed. Within this grounded theory, resistance to change was linked to environmental and industry dynamics, to actors' individual dispositions, and to their interaction patterns.

The variables are linked in circles of causality. The arrows represent the direction of influence between two variables: a plus sign (+) is used when two variables are positively correlated, and a minus sign (-) when they are negatively correlated. Every variable that has both an input and an output arrow is interdependent: it influences, and is influenced by, other variables. Where it is possible to trace a route that returns to the same variable from which it starts out, this is a case of "circular causality". The stability of such a cycle depends on the number of minus signs that it contains. When this number is even, the cycle is reinforcing (Maruyama, 1963) or vicious (Wender, 1968): once a variable has begun to "move" in one direction or another, it will continue

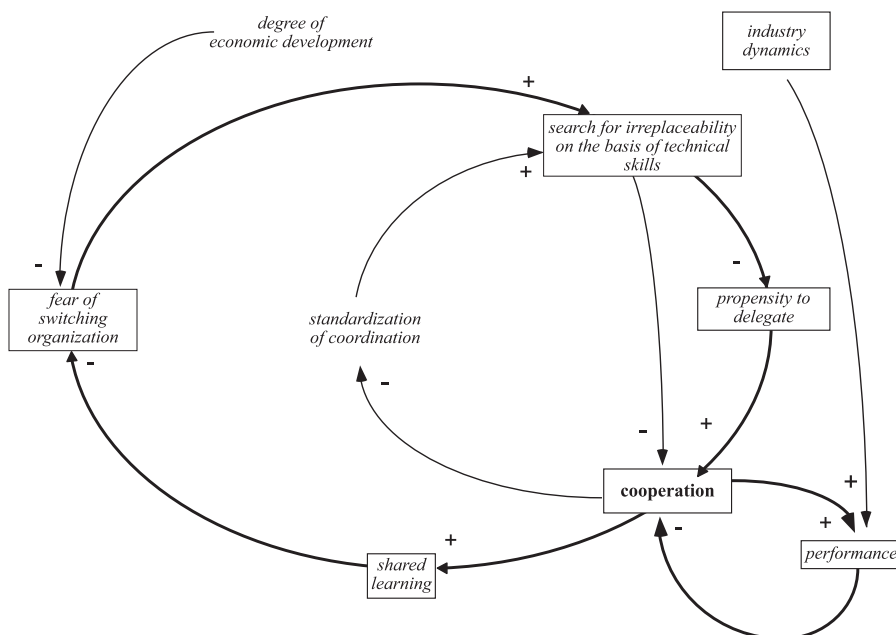


Figure 2.
The grounded theory for resistance to change

in the same direction. On the other hand, when there is an odd number of minus signs, the cycles in question impose some form or other of stability (Weick, 1979; Senge, 1990)

A poorly developed economic environment fosters the aspiration of actors to maintain stable employment: the lack of, or difficulty in finding, alternatives within their geographical area inclines them to hope that the job they have found is permanent. In this way, the fear of individuals of switching organization is influenced by the features of the local economic environment. In order to ward off any danger of having to re-enter the labor market, actors build a position of irreplaceability that is rooted in their exclusive operational competencies. While guarding the power that they have acquired through the control of particular practices and procedures, they strongly resist any kind of delegation, regarding it as a way of sharing information and transferring skills. Meanwhile, when it comes to appointing new members, they discriminate on the basis of social considerations. The process of selection thus favors candidates who are already personally known, and generally rewards those with “reassuring” profiles in terms of their work experience and education, which should never be superior to those possessed by the long-tenured actors. The particularistic features of the selection process, combined with the weak skills profile of newcomers, and the poorly developed economic environment, contribute to the overall stability of the organization. Cooptation is an acknowledged instrument for generating inertia (Kanter, 1983; Keck and Tushman, 1993).

What emerges from these remarks is the sociological dimension generating resistance to change. The actors appropriate exclusive skills, communicating their own irreplaceability, and their threat of defection (Crozier, 1979; Friedberg, 1993), minimizing interactions, and managerial overlaps. The need for cooperation is thus reduced to mainly sequential interdependencies, consistent with the degree of autonomy sought. In an undynamic industry and poorly developed economic environment, the small organization under examination develops a social structure in which essentially independent actors interact prevalently in order to resolve operational exceptions.

The low level of cooperation impacts on performance, producing “hidden” diseconomies. The actors’ substantial independence requires slack resources (March and Simon, 1958; Cyert and March, 1963). By resorting to slack resources, it is possible to constitute a loosely coupled system that is consistent with the idea of stability and of adaptive and incremental change (Cyert and March, 1963; Miller and Friesen, 1980; Kraatz and Zajac, 1996).

In stable organizations behavioral patterns become stable, individuals privilege familiar roles, and standard procedures that limit learning becoming institutionalized. Only local learning is thus encouraged. Under these premises organizational learning, defined as the “transference of learning from individuals and groups through the learning that becomes embedded – or institutionalized – in the form of systems, structures, strategies, and procedures” (Crossan *et al.*, 1999, p. 524), is inhibited. Whenever organizational

learning is sought, some of the individual learning and shared understanding developed by groups gets institutionalized as organizational artifacts (Shrivastava, 1983). We argue that, through the strenuous defense of their individual competences and their only contingent cooperation, actors in this small company react against, and prevent, any form of institutionalized, shared learning. A tacit agreement appears to take place among organizational actors: none is willing to share their knowledge nor expects others to do so.

All four of the causal circles situated to the left of the “cooperation” variable contain an even number of minus signs, and are all therefore reinforcing or “vicious” circles. An even number of minus signs indicates that the situation reinforces its status quo. In the absence of the stabilizing circle situated to the right (the one that links the “cooperation” and the “performance” variables and contains an odd number of minus signs), the system would tend to reinforce its own characteristics: organizational fragmentation, weak propensity to delegation, unshared learning. These reinforcing circles progressively bear down on performance. In this case, a poorly dynamic industry – consisting of firms imitatively producing similar products with little innovative content has the effect of keeping the firms’ performance low. Yet, as soon as performance drops below the minimum level required by competition and by contracts with clients, actors feel forced to promote cooperation in order to improve performance. According to Schein (1993), it is when profit levels decrease, market shares are being lost, and customers are dissatisfied that organizational members are more likely to perceive that their current ways of doing things are no longer working. As soon as performance reaches a level sufficient to fulfil market requirements, though, consolidated behavioral patterns prevail over the need for cooperation. The system thus tends to stabilize in an oscillating pattern between two antithetical drives: on the one hand, a network of actors pursuing their own autonomy through an intense recourse to slack resources that thereby reduce the firm’s performance; on the other, the rebalancing force of the market. These recurrent oscillations represent the small, incremental and adaptive changes described by March (1988).

The apparent immobility of the organization under observation is in reality the result of rebalancing processes and systematic adaptations: it is precisely these small continuous changes that help to keep the system stable. Without a stabilizing circle, the system would not be stable and would collapse. A grasp of these dynamic aspects is thus precisely what is required to understand stability, and organizational inertia. One of the problems in the study of organizational inertia is the fact that the stabilizing circles are harder to grasp than the reinforcing circles because it often seems that nothing is happening (Senge, 1990).

Concluding remarks

This paper is based on an exploratory research conducted in a small Italian firm operating in a relatively undeveloped economic environment and in an

undynamic industry. We built a grounded theory of organizational inertia as generated by the combined effect of the poorly developed local economic environment, undynamic competition, individual behaviors, and interaction patterns. In the social setting under examination, organizational inertia is driven by a circular reinforcing process involving: the actors' search for irreplaceability based on technical skills, low propensity to delegate, low cooperation, high standardization of coordination, absence of shared learning, and fear of switching organization. A balance emerges between two opposite drives. On the one hand, there is the pursuit of operational autonomy, "local" learning, and a progressive decline in performance. On the other, there is the rebalancing drive that the market imposes through the firm's relations with its customers and competitors.

This paper has strengths and limitations. One of its major strength is that the research was conducted in the field, which allowed us to understand the complexity of organizational inertia (Prigogine and Stengers, 1984; Gould, 1985; Isabella, 1990; Gersick, 1991; Buchanan and Badham, 1999). Qualitative research has enabled us to grasp the different levels at which organizational inertia is generated: interaction with the economic environment and with the industry, the propensities of individuals, and the social network. These aspects, which tend to be considered separately in most empirical studies, have here been brought together within a multilevel grounded theory (Klein *et al.*, 1999). This shows the inadequacy of explanations that resort to concepts of linear causality, and reveals the interdependencies between variables. Our research affords a number of hints as to how organizational inertia might be interrupted. A consolidated balance might be upset by a raising of performance standards solicited by the entrepreneur, or triggered by a perceived change in the market. If the change in performance demanded of the organization by the market were incompatible with its adaptive capability, then the firm would risk failing. The social network turns out to play a major role in breaking or consolidating stability. In order to modify the constituted order, it seems not to be sufficient just to inhibit the particularistic criteria for selecting new members, nor to introduce selection criteria based on the evaluation of candidates' potential skills. It seems more important that newcomers have the necessary relational skills to intervene upon the social network, presenting themselves as alternative nodes within the flow of information and decisions.

One limitation of this paper is represented by the amount of time we spent in the field. A longer observation period would have given us a deeper insight into this organization. It may have been interesting to observe and interview other key actors not belonging to the two top hierarchical levels, for example salespeople and the assistants of some managers. Moreover, we are aware that our theory is grounded in a specific social setting. It would be interesting to see whether it helps interpret different social settings as well.

As a future research agenda, an interesting point relates to the relation between small and medium-sized enterprises and the economic environment. The influence that the environment exerts upon small organizations has been

treated in depth by research into industrial districts: geographical proximity between companies fosters the development of a network of relations and exchanges that is often neither formalized nor planned (Best, 1990; Becattini, 1998). By contrast, small organizations within industries and economic environments that are relatively undynamic have remained, as a rule, unexplored. It might be interesting to do further research on small organizations operating in other highly industrialized countries, but placed outside such highly developed areas as the Silicon Valley in the USA or Sophia Antipolis in France.

Finally, our paper helps to undermine the assumption that innovativeness and flexibility are attributes of small size rather than of the specific and more complex relationships between economic environment, industry and organizational features. This multilevel perspective on small and medium-sized business, in contrast with a priori assumptions on company size, is of special interest in those countries where small-sized organizations are widespread.

Note

1. The following actors were observed (the codes used in the data analysis to preserve the informants' right to privacy are indicated in brackets): entrepreneurship (FE, AC: the latter does not play an active role as entrepreneur, being more involved with technical issues); general manager (FF: in actual fact the general manager's tasks are still carried out by the entrepreneurship and this actor, the owner's son, is working in the marketing department); marketing department manager (BW); domestic sales manager (GF); export sales second-level manager (SR); German sales manager (PL); manufacturing department manager (DP); PC network manager (BA); assembly manager (LM).

The exchanges of the 13 actors observed (the "informers") revealed a further 45 organizational actors, mainly production workers and secretarial staff. In view of the fact that these were not subject to direct observation, they were eliminated from the main data processing procedures.

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