

Title: Sense Agilely, Act Accordingly: Organizational Sensemaking and Strategic Response in Turbulent Times

Summary: How a firm senses its environment may impact the strategic actions the firm adopts. Regarding the sensemaking process, firms may be involved in environmental scanning and strategy framing. This study selects firms in industries that suffered from the COVID-19 crisis as a research sample. By adopting structural content analysis as a research method, this study extracts findings from a systematic process. This study has two main contributions. Firstly, this study preliminarily develops an integrative framework to connect the causality between the organizational sensemaking process and strategic responses. Secondly, this study provides implications for firms to build resilience systems to act accordingly in turbulent times.

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INTRODUCTION

The detection and interpretation of the external environment by organizations influence their propensity for action, subsequently leading to performance differences. Particularly in times of environmental turbulence, an organization's sensemaking of the external environment may affect its resource allocation and action strategies, causing strategic variations among competitors.

Numerous studies have also highlighted that the strategic focus of managers within an organization affects the formulation of key decisions, responses to external environmental challenges, capability development, and performance outcomes (Eklund & Mannor, 2021; Feldman, 2014; Helfat & Peteraf, 2015; Kaplan, Murray, & Henderson, 2003; Thomas, Clark, & Gioia, 1993). The acquisition and interpretation of external environmental information by organizations influence their subsequent action tendencies and effectiveness. Eklund and Mannor (2021) focused on the impact of the strategic breadth of managerial attention on action performance. According to their study, in times of high external environmental uncertainty, managers with a broader strategic focus can aid organizations in identifying new business opportunities, thereby overcoming potential environmental threats. The cognitive structures of managers within organizations are thus considered a critical knowledge resource affecting their strategic choice portfolio (Gioia & Chittipeddi, 1991; Nag & Gioia, 2012).

At the core of sensemaking is how organizations, while changing environments, gradually construct rational behaviors and explanations through interactions with various stakeholders (Isabella, 1990; Maitlis & Christianson, 2014; Weick & Robert, 1993). This process of sensemaking involves not only the organization's collection and interpretation of environmental information but also encompasses the identification of shifts in its foundational assumptions under uncertain conditions, as well as the envisioning of its future operational landscape.

The decision on how to act after “sensing the opportunity” depends on how organizations make sense of environmental risks and the strategic concepts they devise for the current situation. Hitt et al. (2021) offered observations and suggestions for developing strategic management theory following the COVID-19 pandemic, arguing that firms must adjust their strategic direction to cope with discontinuities and non-ergodic business environments. This study anticipates integrating the 13 strategic action categories identified by Eklund and Mannor (2021), progressively developing strategic action plans responsive to the environment.

This study, with an exploratory aim, seeks to connect the process from organizational decision-making, through sensemaking, to action, focusing on the period before and after the outbreak of COVID-19 (2018 to 2020). It aims to analyze industries that have been positively and negatively impacted by the pandemic, exploring the sensemaking processes and responsive actions of organizations under environmental turbulence. Utilizing in-depth interviews, structured content analysis, and computer-assisted content analysis, the study systematically addresses the following research questions:

1. How do organizations sense opportunities and threats in a turbulent environment, and how does this sensing process influence the composition and effectiveness of strategic response actions?
2. In a turbulent environment, how do organizations, through the linkage of “organizational sensemaking—strategic response—organizational performance,” gradually learn and adjust their decision-making and actions to enhance their resilience against environmental threats?

LITERATURE REVIEW

The driving mechanisms of strategic decision-making and action

Organizations rely on a combination of action plans to achieve goals and create value. These actions stem from specific decision-making behaviors and reflect the individual organization's cognition of environmental and resource assumptions. Organizations must continuously collect and analyze information from both external and internal environments, based on which they formulate decisions that are developed into concrete action plans. Consequently, organizations can be viewed as systems of “information processing” and “decision rendering” (Cyert & March, 1963: 20; Mahoney, 2005).

Previous literature has referred to the cognitive process of organizations' recognition of external information and the interpretation of various messages in the environment as “sensemaking” (Brown, Colville, & Pye, 2015; Maitlis, 2005; Thomas, Clark, & Gioia, 1993; Weick, 1995). The process of organizational sensemaking focuses on the organization's “interpretation” of its external environment and its own role. Through sensemaking, organizations generate subjective perceptions of incidents in emergent situations, thereby influencing their decisions or actions to align with the environmental context. On the other hand, organizations can also understand and learn from unfamiliar events through sensemaking, developing activity patterns that respond to new environmental conditions. Organizational sensemaking can thus enhance an organization's perceived control over crisis situations, increase the effectiveness of actions, and reduce the likelihood of decision-making and action failure in uncertain circumstances (Weick, 1993).

According to the literature on organizational sensemaking, organizations continuously perceive and sense their operating environment, thereby shaping the basis for decision-making and action. This phenomenon explains why, on a similar basis of environmental uncertainty, firms may adopt different response actions, leading to varying performance outcomes. The literature also points out that how organizational managers identify, engage in, and interpret the process of environmental discontinuities will affect their response effectiveness (Eggers & Park, 2018; König, Graf-Vlachy, & Schöberl, 2021).

Organizational sensemaking and strategic action in turbulent environments

How organizations engage in sensemaking activities in turbulent environments and subsequently take corresponding response actions is one of the focal issues in recent strategic management research. When organizations face highly uncertain operational environments, they may also change their identity recognition of the external environment and the logic behind their strategic actions (Livengood & Reger, 2010; Powell & Baker, 2014), thereby allowing them to flexibly adjust internal operational processes and the competitive and cooperative relationships with external network members.

When organizations sense potential losses due to environmental threats, they will likely adopt various response actions. Past research has indicated that organizations may respond to unknown environmental risks by implementing actions to enhance operational efficiency, such as reducing costs, tightening budgets, and restricting operational activities (Thomas, Clark, & Gioia, 1993).

In addition to actions related to internal operations and competitive and cooperative behaviors in the external task environment, deepening, reorganizing, and developing network relationships can also affect an organization's ability to respond to environmental turbulence. Crick and Crick (2020) observed interactions among firms under COVID-19, focusing on convenience store operators in the UK, pharmaceutical manufacturers in the USA, China, and Germany, large technology companies in the USA, and nonprofit organizations in the UK as their research settings. They found that across different industries, organizations tended to adopt competition strategies in response to unexpected environmental fluctuations. By adjusting

existing network relationships, firms could more efficiently obtain the resources and capabilities essential for survival, minimize potential operational losses, and promptly perceive and seize opportunities, thereby developing adaptive strategic plans to navigate through environmental turbulence (Hannah & Eisenhardt, 2018; Pangarkar, 2007; Velu, 2016).

METHODOLOGY

To explore the context of the strategic decision-making process, this study adopts an exploratory multiple case study approach as the research method. Case study research is an empirical method aimed at investigating a specific real-world phenomenon, especially when the boundaries between phenomenon and context are not clearly evident. It allows for an in-depth exploration, description, or explanation of the causal relationships and the environmental background of the phenomenon (Yin, 2009). The case study method is also considered more suitable for analyzing the evolutionary and dynamic development processes of organizations (Langley, 1999; Miozzo & DiVito, 2016; Van de Ven & Poole, 2005). Eisenhardt (1989) further notes that the case study method is an appropriate way to understand the dynamic changes within a single situational field. Multiple case analyses are particularly beneficial for illustrating the contextual differences across various research situations and the process and mechanism changes caused by these contextual differences (Miozzo & DiVito, 2016; Yin, 2009).

Covid-19 has had a severe impact on many industries in Taiwan. According to a research report by the Industrial Technology Research Institute (ITRI), the pandemic has had a severe negative impact on industries such as photovoltaic manufacturing, battery module and cell manufacturing, and LED components. Despite the varying degrees of impact that the overall environment has on different industries, there still exists a performance gap between companies within the same industry. The difference in managers' sensemaking of the external environment and the subsequent strategic response actions they take is one of the main reasons for the differing effectiveness in environmental adaptation.

To deconstruct the process and content of organizational sensemaking activities and strategic responses under environmental turbulence, this study adopts a rigorous data collection and analysis procedure, following a research-then-theory grounded approach to gradually generate findings and insights. Through structural content analysis, this research will select publicly listed companies across industries affected by the pandemic as samples. By analyzing the “letters to shareholders” from annual reports of listed firms in target industries between 2018 and 2020, a dataset on different companies' sensemaking of the external environment and strategic response actions will be constructed.

Content analysis of letters to shareholders has been widely used in past research to explore managers' cognitive maps, attention patterns, and action tendencies (Barr, Stimpert, & Huff, 1992; Craig & Amernic, 2018; Cho & Hambrick, 2006; McClelland, Liang, & Barker III, 2010; Ocasio, 2011; Osborne, Stubbart, & Ramaprasad, 2001; Surroca, Prior, & Tribó Giné, 2016). This source of data is considered to compensate for information that may be incomplete or misinterpreted in interviews (Bettman & Weitz, 1983; Hodgkinson, 1997; Osborne, Stubbart, & Ramaprasad, 2001), and due to its statutory, public, and third-party audited nature, it is a concrete source of data that reflects the strategic intentions of organizations and the mental models of managers.

EXPECTED OUTCOME AND PROPOSITIONS

Different firms vary in how they connect environmental sensemaking to strategic actions, affecting the variance in performance over time for each company. This study considers changes in EPS over time as a performance outcome demonstrating organizational resilience in turbulent environments. In brief, when a firm experiences a greater negative change, it reflects a higher susceptibility to external environmental threats impacting its profit margins, possibly indicating

poorer “recoverability.” Conversely, firms that achieve significant performance growth in turbulent environments imply better response capabilities, allowing them not only to safeguard performance but even to grow against the odds, reflecting superior environmental response resilience. This study thus propose the following two propositions:

Proposition 1: In turbulent environments, an organization's environmental sensing (organizational sensemaking) and strategic response capabilities will affect its organizational resilience.

Proposition 2: In turbulent environments, when an organization's environmental sensing (organizational sensemaking) and strategic response are consistent, it will positively affect its organizational resilience; conversely, if there is inconsistency between an organization's environmental sensing (organizational sensemaking) and strategic response, it will negatively affect its organizational resilience.

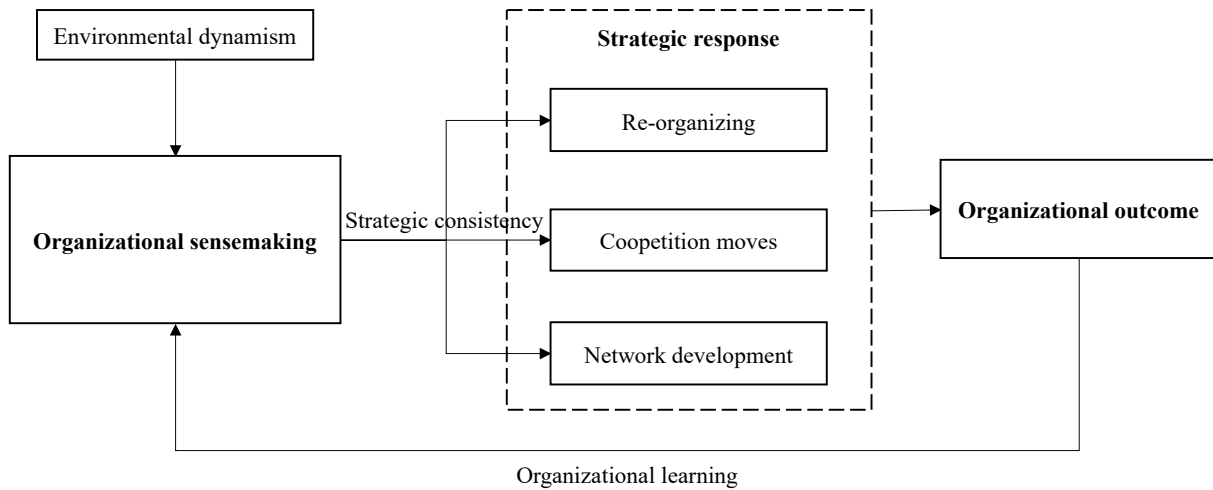


Figure 1 A framework of organizational sensemaking—strategic response—organizational outcome linkage

Based on the literature review, this study preliminarily develops a framework for organizational sensemaking and strategic responses under environmental turbulence (Figure 1). In this conceptual framework, facing environmental dynamism, organizations will trigger different levels of sensemaking processes, which will affect the potential strategic response actions they may take. Organizations might respond to external threats through strategic actions in internal operations, product markets, and network relationships. In terms of internal operations, organizational restructuring activities include improving production efficiency, financial and risk management, and growth in capabilities and knowledge; coopetition moves involve value-capturing actions in the product market, including the launch of new products, expansion into new markets, or innovation in business models; in terms of network development, this includes changes in the competitive and cooperative relationships with external network members, including strategic alliances, joint ventures, or mergers and

acquisitions, as well as potentially deepening or exiting existing network relationships. Finally, the link between organizational sensemaking activities and strategic responses will affect firms' operational effectiveness. This study will also explore the dynamic changes in the "organizational sensemaking—strategic response—organizational outcome" adjustment process over time, examining the learning process of organizational sensemaking.

This study expects to achieve the following contributions: First, we integrate strategic literature from two major contexts, the behavior theory of firm and network perspective, to develop a framework for exploring the causal relationship between organizational decision-making mechanisms and actions. Second, through a longitudinal research process, this study will examine the learning process of individual organizations in linking and adjusting between organizational sensemaking and strategic actions.

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