ESSAYS ON ORGANIZATIONAL DECLINE

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ABSTRACT

The purpose of this thesis is to understand how organizations manage decline, focusing on the role of management accounting. In the first study, I investigate the role of management accounting in organizations that experience decline. Through a field study in five private sector organizations and one public sector organization, I offer a theory-based explanation for why some organizations use management accounting, while others do not. I find that, when decline arises from discontinuous and unpredictable environmental change, the shock drives organizational members to first convince themselves that their accounting systems and reports can be relied upon and to then use this accounting information to manage decline. In contrast, without any significant discontinuity at the onset of decline, organizational members question the "truth and value" of accounting and, as a result, are not driven to mobilize it to manage decline. In the second study, I conduct additional field work in the public sector organization from the first study to more closely examine how management accounting is used to manage decline and pursue a performance turnaround. I find that leaders actively use management accounting practices to construct an understanding of their organization's decline through sensemaking and persuade employees to become involved in turnaround efforts through sensegiving. Further, I highlight accountability as an important adjunct to these sensemaking and sensegiving activities. Varied accountability relationships and mechanisms were instituted to discipline the meanings that were constructed and to ensure these meanings were incorporated into organizational decision making and action. In the third study, I empirically test a typology of environmental decline by examining organizations' behaviours and response strategies during decline. Leveraging the same set of interviews as the first study, I find that leaders' behaviours and, in particular, their strategic responses and emphasis on efficiency or effectiveness align with the typology. Thus, I highlight that specific details of the environmental change leading to organizational decline have implications for its management. Together, these studies explain the management response to decline and, in particular, show that management accounting is a critical resource for some organizations as their members manoeuvre decline.

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Introduction

1.1   Background and Motivation

This thesis is aimed at understanding how organizations manage decline, focusing on the role of

management accounting during such organizational decline. With the 2007–2008 financial crisis

and 2008–2009 recession six years past, one might expect organizations to be sharing stories of

recovery, growth and prosperity. Instead, a recent survey by The Gandalf Group (2015) reports

that C-suite executives' outlook on Canada's economy has "weakened significantly" and is, in

fact, "the most pessimistic outlook among the C-suite since 2009—the aftermath of the

recession." Many C-suite executives no longer believe their businesses will grow and instead

"22% now expect moderate or strong decline" in the coming year (*The Gandalf Group*, 2015).[1]

Recent practitioner journals also provide evidence of a challenging business environment. For

example, *CPA Magazine* recently featured headline articles titled "Why big companies fail"

(October 2014) and "The Postman: Can Canada Post CEO deliver a service that meets 21st

century needs?" (March 2015, abbreviated). Finally, the current challenges are evident in the

news where corporations are highlighted for recurring layoff announcements, closures of

particular business units/segments, or for altogether ceasing operations.

Formally, organizational decline is defined as a "substantial, absolute decrease in an

organization's resource base [that] occurs over a specified period of time" (Cameron, Kim, &

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[1] The Gandalf Group conducts quarterly surveys to collect the opinions of C-suite executives in Canada's largest organizations. *The C-Suite Survey* series is commissioned by Business News Network and The Globe and Mail (Report on Business), and is sponsored by KPMG (refer to www.gandalfgroup.ca/csuite.html).

Whetten, 1987, p. 224) which an organization fails to avoid, neutralize or adapt to, and as a result, organizational survival is at risk (Weitzel & Jonsson, 1991). Organizational decline creates very challenging circumstances within which organizational members must make prudent decisions despite limited resources and shortened time horizons (Cameron, Kim, et al., 1987; Cameron, Whetten, & Kim, 1987). Research has shown that organizations experiencing decline are also challenged with low employee morale, high employee turnover, resistance to change, loss of financial slack, and reduced leadership credibility (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987; Whetten, 1987). These challenges affect the management response to decline and, specifically, the decision-influencing and facilitating role of management accounting at a time when organizations need information to support decision making (Macintosh, 1994; Selto & Widener, 2004).

Management accounting is intended to be a valuable resource and tool allowing organizational members to collect, analyze and interpret information to support decision making (Luft & Shields, 2003; Macintosh, 1994)—a function that may become more critical during periods of decline. Despite the concern regarding decline, little is known about the role of management accounting in organizations experiencing decline. While researchers have made progress in understanding the use of management accounting during organizational change (see, for example, Hassan, 2005; Soin, Seal, & Cullen, 2002), I argue that organizational decline is a unique setting since survival is uncertain and organizational members face significant time pressures and resource constraints in their decision making and action. A number of researchers have been calling for attention to be redirected at organizational decline and, in particular, the use of accounting during decline (Arnold, 2009; Bozeman, 2010; Hopwood, 2009; Van der Stede, 2011).

1.2   Research Questions

In this thesis, I employ qualitative research methods to understand the management response to organizational decline as well as the role of management accounting during such decline. Qualitative research is well suited to examining topics about which we know very little (Myers, 2009) and, in particular, for addressing "how" questions such as how managers behave during and respond to decline and how management accounting is used during decline. Through field research—including interviews, observation, and an extensive collection of secondary materials—I gathered first-hand insights into the management of organizational decline. Further, I gathered first-hand insights into the role of management accounting in organizations facing decline and, in the case of one organization, the role of management accounting in facilitating a performance turnaround.

Chapter 2 relies on 34 interviews conducted within five private sector organizations and one public sector organization to answer the following research question: Do organizations use management accounting as they experience decline and, if so, how? Chapter 3 focuses on the public sector organization from Chapter 2. Through an expanded set of interviews (10 interviews with 8 participants from Chapter 2 plus 6 additional interviews with 8 new participants) and an expansive set of secondary materials, a longitudinal case study addresses the following research question: How does management accounting facilitate the management of a healthcare organization's decline and performance turnaround? Chapter 4 leverages the same interviews as those analyzed in Chapter 2 to examine how management responds to organizational decline more generally. Respondents provided rich accounts of various strategic and operational responses to decline (in addition to descriptions of their use of management accounting). Using

these, I aim to answer the following research question: What behaviours and response strategies do organizational members employ to manage decline?

This thesis is structured to address these research questions with Chapters 2, 3, and 4 comprising three standalone papers. However, as I have just highlighted, they share a significant amount of collected data. Data and relayed information are deliberately duplicated across the chapters to ensure that the necessary definitions, key findings from existing literature, and introductions to my research sites are included so that each chapter can be read as a separate paper. As my intended audience for Chapter 4 is strategic management researchers, it includes extensive use of theoretical language appropriate to that discipline that may be less familiar to accounting researchers. These three chapters, connected by a common theme of organizational decline, are discussed next.

1.3 Overview of Chapter 2 – The Effect of Continuous and Predictable Environmental Change on the Use of Management Accounting during Organizational Decline: A Field Study

In Chapter 2, I investigate whether and how organizations use management accounting as they experience decline. I engage in a field study of five private sector organizations and one public sector organization that are facing or recently faced decline due to external environmental change. Based on 34 semi-structured interviews with key executives including accountants as well as observations and extensive secondary documents, I examine these issues using one of the two dimensions of Zammuto and Cameron's (1982, 1985; Cameron & Zammuto, 1983) typology of environmental decline adapted to address the research question.[2]

Using this typology to analyze my six organizations, I offer a theory-based explanation for why some organizations mobilize management accounting during decline while others do

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[2] Several papers contribute towards the typology of environmental decline, particularly Cameron and Zammuto (1983) and Zammuto and Cameron (1982, 1985) within which the core ideas are developed. When I refer to "Zammuto and Cameron" with no publication date, I am referring to these articles collectively.

not. I find that members in organizations facing decline due to a discontinuous and unpredictable change in the external environment engage in a comprehensive review of their management accounting systems and reports to convince themselves that these systems can be relied upon. Following from this process, organizational members use accounting to understand their past, develop metrics intended to reach employees at all levels, and institute various relationships and mechanisms of accountability to support the management of decline. In contrast, when facing decline due to continuous and predictable change in the external environment, I find that organizational members express significant concern for the "truth" and "value" of their management accounting practices and, as a result, do not adapt these tools or develop new tools to manage decline. These findings imply that the shock of discontinuous and unpredictable decline drives organizational members to first convince themselves of the "truth and accuracy" of their accounting systems and reports and then to use this accounting information in novel ways to manage decline. They further imply that, without significant discontinuity or unpredictability, organizational members are not driven to mobilize management accounting to manage decline.

In this chapter, I also contribute to a long line of research seeking to understand whether decline leads to rigidity or, instead, stimulates organizational action and innovation (e.g., Barker & Mone, 1998; McKinley, et al., 2014; Mone, et al., 1998). When organizations face a threat such as decline, the threat-rigidity thesis suggests they will experience increased centralization, reduced information processing, and resource conservation, leading to rigidity and reliance on learned routines and past behaviours (Staw, et al., 1981). Counter to the predictions of much decline and threat-rigidity literature, the organizations in this study that faced discontinuous change and defined decline as a threat mobilized accounting and, in doing so, improved their

processing and use of information as well as their sharing of control. By using accounting to understand their organization's past, organizational members learned that it was not safe to rely on their past behaviours and routines during decline. This finding suggests that, when decline is perceived as threatening, organizational members can use management accounting to minimize or avoid rigidity.

1.4   Overview of Chapter 3 – Accountable Sensemaking and Sensegiving: The Use of Management Accounting during the Decline and Turnaround of a Healthcare Institution

In Chapter 3, building on the initial analysis in Chapter 2, I investigate how management accounting facilitates the management of decline and pursuit of a performance turnaround in a healthcare setting. Turnaround is defined as an organization's performance recovery from financial failure and impending collapse (i.e., stabilizing operations and restoring financial position) (Barker & Duhaime, 1997; Boyne, 2004; Lamberg & Pajunen, 2005). By conducting additional field work in the public sector organization included in Chapter 2, I am able to more closely examine the use of management accounting in a healthcare organization that recently experienced decline and managed to implement a successful performance turnaround. In total, I conduct 16 semi-structured interviews with key executives and accountants and inform my analysis using an extensive collection of secondary materials. In this chapter, I analyze the data following the theoretical perspectives of sensemaking and sensegiving alongside accountability.

My findings show that management accounting is a critical resource for this organization as its leaders and employees manoeuvre decline and pursue a turnaround. I show that management actively used accounting practices (e.g., year-over-year comparatives, variance analysis, and benchmarking) to construct an understanding of the past and create a shared context for the healthcare organization's state of decline (i.e., through sensemaking). Accounting

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was also actively used to communicate this understanding and persuade organizational members to participate in a turnaround plan (i.e., through sensegiving). My analysis contributes to an emerging collection of research examining the use of accounting as a language in which to make and give sense (e.g., Heidmann, Schäffer, & Strahringer, 2008; Kraus & Strömsten, 2012; Tillmann & Goddard, 2008).

In this chapter, I also provide an in-depth understanding of accountability as an important adjunct to the theoretical perspectives of sensemaking and sensegiving. Varied accountability relationships and mechanisms were instituted to discipline the meanings constructed through sensemaking and sensegiving and to ensure that these meanings are incorporated into organizational decision making and action. In addition to this theoretical contribution, my analysis adds to the limited number of field studies examining the operation of accountability within an organization (e.g., Ahrens, 1996; Johansen, 2008b). Despite extensive examination of external forms of accountability (for a review, see Hayne & Salterio, 2014), its operationalization inside an organization is not well understood.

1.5   Overview of Chapter 4 – A Field Study of Organizations in Decline: A Test of Zammuto and Cameron's Typology of Environmental Decline

In Chapter 4, I investigate how organizations react and respond to different types of decline arising from environmental change. Zammuto and Cameron's typology identifies two dimensions of environmental change—whether onset is continuous/predictable or discontinuous/ unpredictable and whether the niche (i.e., market) is decreasing in size or shifting towards other products/services—that distinguish four types of decline experienced by organizations (Cameron & Zammuto, 1983; Zammuto & Cameron, 1982, 1985). Based on the type of decline an organization faces, the typology predicts that a number of the organization's behaviours and response strategies will vary: perceptions of decline, coping tactics, emphasis on efficiency/

effectiveness, strategic responses, and structural (i.e., internal) adjustments. For my analysis, I rely on the 34 semi-structured interviews and extensive secondary data sources from the same five private sector organizations and one public sector organization as used in Chapter 2.

My findings show that organizations' behaviours and response strategies generally align with the typology. When the onset of decline is discontinuous and unpredictable (continuous and predictable), organizational members become aware more (less) quickly and, as a result, appear to view the circumstances as a threat (opportunity). Similarly, when decline is unpredictable (predictable) the coping tactics employed were either reactive or experimental (proactive or inactive), based on the precise type of decline. When niche size (shape) decreases (shifts), organizational members' comments emphasize their concern for efficiency (effectiveness). To reposition their organization, members describe strategic responses focused on protecting (diversifying) their portion of a decreasing (shifting) niche in alignment with the typology; however, they use domain consolidation more widely than Zammuto and Cameron suggest. Finally, I observe that the posited structural adjustments (i.e., internal changes) do not follow the expectations in Zammuto and Cameron's typology. In particular, rather than the type (e.g., add versus remove an activity) or scope (e.g., incremental versus substantial) of change to an organization's form and structure varying according to the type of decline experienced, organizations employ a diverse range of structural adjustments.

In this chapter, I challenge a conclusion drawn by many researchers that externally (internally) caused decline should be carefully matched with a strategic (operational) response (Barker & Duhaime, 1997; Levine, 1978; Pearce II & Robbins, 1993; Robbins & Pearce II, 1992; Schendel, Patton, & Riggs, 1976; Schoenberg, Collier, & Bowman, 2013). Instead, my findings imply that, although the precise details of the cause or type of decline are important to

understanding managements' response, management will employ a diversified portfolio of behaviours and response strategies to manoeuvre their organization through decline. In this chapter, I also provide current evidence of the ability of Zammuto and Cameron's typology to explain how organizations behave and respond to decline (i.e., theory illustration) and refine the typology making it amenable to broader scale tests. Thus, I highlight a helpful way for researchers to examine organizations' behaviours and response strategies related to different types of decline (i.e., theory specification).

1.6   Thesis Structure

The next three chapters each comprise a standalone manuscript in which I introduce the purpose of the study, develop and explain the theoretical framework employed, describe the research methods (including details of my site selection, data collection, theory development, and data analysis), and provide introductions to the case studies. Following this, Chapters 2 and 3 contain an analysis section including rich accounts of the role of accounting during decline, while Chapter 4 describes organizations' behaviours and response strategies during decline, alongside theory carefully selected to illuminate the data and to help me understand it. I conclude each chapter with a discussion of my findings and contributions. In Chapter 5, I revisit the research findings and contributions of these three chapters. I identify my contributions to the accounting, organizational decline, and turnaround management literatures as well as to the theoretical frameworks I employ. I conclude by identifying limitations and directions for future research.

The Effect of Continuous and Predictable Environmental Change on the Use of Management Accounting during Organizational Decline: A Field Study

2.1   Introduction

This chapter investigates the role of management accounting in organizations experiencing decline. Organizational decline is characterized by a significant and long-lasting decrease in an organization's resource base. In this chapter, I focus on organizations experiencing decline due to an external shift in their environment. The environmental change that organizations face may arise in a discontinuous and unpredictable way or it may unfold in a continuous and relatively predictable way. In the typology I employ in this chapter, the way that environmental change arises and leads to organizational decline (referred to as the pattern of change) determines an organization's opportunities to recognize and respond to decline. Specifically, I investigate the research question of whether and how management accounting is leveraged by organizations to manage decline.

My focus on the role of management accounting in organizations experiencing decline is of importance to researchers and practitioners for two reasons. First, an increasing number of organizations are facing significant challenges as a result of intensifying competition and challenging economic times. A 2013 consulting report found that less than 50 percent of C-Suite executives in Canada believe their organization has fully recovered from the 2007–2008 financial crisis (*The Gandalf Group*, 2013). Further, 68 percent note that the 2008–2009 recession continues to impact the way business is conducted, highlighting the persistence of

tighter cost controls as well as cautious borrowing and risk acceptance (*The Gandalf Group*, 2013). Despite the concern regarding decline, little is known about whether and how organizations leverage management accounting to manage decline. Second, this study is important because management accounting is intended to be a valuable resource and tool for organizational members to collect, analyze and interpret information to support decision making (Luft & Shields, 2003; Macintosh, 1994)—a function that may become more critical during decline. However, organizations in decline are less likely to have the time or resources to consider implementing or revising these tools given that management accounting tools are costly for organizations to implement at the best of times. Researchers have been calling for attention to be redirected at decline and, in particular, the use of accounting during decline (Bozeman, 2010; Hopwood, 2009; Van der Stede, 2011).[3]

Qualitative research is aptly suited to investigating whether and how organizations leverage management accounting to manage decline, allowing me to observe and understand the context within which organizational participants use information, make decisions, and elicit behaviour (Myers, 2009). Specifically, I conduct 34 semi-structured interviews in five private sector organizations and one public sector organization that have recently experienced or are currently experiencing decline. I adapt a typology developed by Zammuto and Cameron (1982, 1985; Cameron & Zammuto, 1983), in which external shifts in the environment create the circumstances for organizational decline, to analyze the cases. A combination of interviews, observations, and an extensive set of secondary documents allow me to compose a case study for each organization and to then analyze the similarities and differences of how management accounting is used during decline.

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[3] I note that Hopwood (2009) and Van der Stede (2011) describe the accounting implications of the "economic crisis" and call for researchers to examine the management accounting implications of crises. Both researchers also point to the long-lasting effects in the "wake of the crisis" (Van der Stede, 2011, p. 606) and thus call for research on decline.

From this analysis, I find that organizations in decline due to discontinuous and unpredictable environmental change mobilize management accounting differently from those experiencing more predictable change. Organizational members go through a process in which they carefully review and "clean" their accounting systems and reports to convince themselves that the information can be trusted and relied upon. Following from this process, organizational members use accounting to help them understand their past; develop digestible (i.e., accessible) metrics to assist and, ideally, ensure all organizational members understand and share the realities of decline; and institute various relationships and mechanisms of accountability to support the management of decline. Despite the various challenges associated with discontinuous and unpredictable decline (e.g., no early warning signals, perceived threats to organizational survival, heightened feelings of uncertainty and time pressure) organizational members are motivated to revisit and revise their use of management accounting.

In contrast, I find that organizations in decline due to continuous and relatively predictable environmental change do not actively mobilize management accounting during decline compared to those in less predictable environments. Members of organizations characterized by this type of decline express significant concern for the "truth" and "value" of their management accounting systems and reports. Members of these organizations use management accounting tools during the ordinary course of business but do not adapt these tools or develop new tools to manage decline. Consistent with Zammuto and Cameron's (1982, 1985; Cameron & Zammuto, 1983) typology, these organizations' members become aware of decline more slowly and define the resulting circumstances as an opportunity to improve performance rather than a threat to organizational survival even as it eventually becomes increasingly

threatening. Still, organizational members do not change their use of management accounting apparently due in part to its continuous and more routine nature.

The next section highlights key prior research findings concerning the context of organizational decline and introduces the theoretical framework whose explanatory concepts I engage to evaluate my research question, formulate my interview questions, and analyze my data. Section 2.3 describes my research methods and introduces each organization. In Section 2.4, I analyze these organizations' use of management accounting according to my adapted version of Zammuto and Cameron's typology. Finally, Section 2.5 concludes by outlining the contributions of this research.

2.2   Context and Theory Development

2.2.1   *Context of organizational decline*

Organizational decline refers to a "substantial, absolute decrease in an organization's resource base [that] occurs over a specified period of time" (Cameron, Kim, et al., 1987, p. 224) and is not avoided, neutralized, or adapted to, putting organizational survival at risk (Weitzel & Jonsson, 1991). While most researchers operationalize decline based on decreased revenue or funding (Cameron, Whetten, et al., 1987; see Trahms, Ndofor, & Sirmon, 2013 Table 1 for a summary), others highlight the need to pay attention to an organization's financial and nonfinancial conditions (van Witteloostuijn, 1998). Further, since not all signals of decline are clear (e.g., retrenchment activities could be an intentional strategic decision by managers and not indicative of decline), it is also important to consider organizational members' perceptions of decline (Gautum, Whetten, & Cameron, 1997). When organizations fail to mitigate decline, a number of consequences arise in addition to the challenging financial conditions that hinder the management of decline.

Organizations experiencing decline face immense pressure (Trahms, et al., 2013) and routinely implement employee termination measures or experience employee resignations as employees pursue safer employment (Cameron, Whetten, et al., 1987; Gandolfi & Hansson, 2011). This loss of key decision makers and valued employees results in a loss of organizational history, experience, and expertise (Weitzel & Jonsson, 1991). Organizational participants that remain face work overload and potential burnout in addition to the stress associated with employment uncertainty (Galbraith, 1973; Mishra & Spreitzer, 1998; Sweeney & Quirin, 2009). These consequences affect the ability of management accounting to play a decision-influencing and facilitating role at a time when organizations need information for decision making (Macintosh, 1994; Selto & Widener, 2004).

There are a number of reasons why we might not expect an organization to manage decline, especially via management accounting. On the one hand, organizations might not recognize the problem, its severity, or the need to respond. They could ignore or refuse to believe the signals (Weick, 1993); they could be blinded by prior success (Cahill, 1998); or their size, complexity, managerial cognition, or organizational processes could make them unaware of declining performance (Gopinath, 2005; Whetten, 1987). For any of these reasons, organizations may not feel compelled to mobilize management accounting. On the other hand, organizations might not manage decline because they are not able to respond. Here, inadequate competencies, feelings of uncertainty, increased time pressure, loss of employees, and constrained resources could prevent an organization from responding to declining performance (Barker & Mone, 1998; Galbraith, 1973; Rosenblatt & Sheaffer, 2001). For any of these reasons, organizations might feel compelled but be unable to mobilize management accounting to respond to decline.

Alternatively, decline could also motivate organizational members' efforts to stabilize operations and restore profitability (McKinley, 1993). Researchers have examined specific tactics used by organizations to manage decline and pursue turnaround. Possible strategies include retrenching assets, seeking operational efficiencies, reconsidering products/services, or revitalizing leadership and/or culture (see Schoenberg, et al., 2013 for a recent review). Though a substantial amount of research focuses on the effectiveness of specific management tactics, little is known about the use of management accounting during decline. Next, I highlight studies that contribute to our understanding of the use of management accounting during situations that are similar to decline.

2.2.2   *Accounting and organizational decline*

For this study, I define management accounting as "the information support system that… facilitates communication, motivation and performance evaluation" (Atkinson, Balakrishnan, Booth, Cote, & et al., 1997, p. 88). There is little within-firm research on how accounting is employed in organizations facing decline specifically.[4] There is, however, a collection of research examining the use of accounting in crisis situations where crisis is defined as a "low-probability, high-impact event that threatens the viability of the organization" (Pearson & Clair, 1998, p. 60). For example, Ezzamel and Bourn (1990), who consider various roles of accounting information systems (AIS) in decision making in a university setting, show that AIS shape decision makers' perceptions of the magnitude and impact of the crisis. Once relevant perceptions are established, the AIS improve the rationality of decision making in the university as it navigates through a funding crisis. Colignon and Covaleski (1988) examine the accounting practices of a technology firm facing significant decreases in sales due to a severe financial

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[4] External to the firm, researchers have examined the use of accounting information in related circumstances (e.g., bankruptcy predictions) (for recent reviews, see Ayotte, Hotchkiss, & Thorburn, 2013; Hotchkiss, John, Mooradian, & Thorburn, 2008).

crisis, and Czarniawska-Joerges (1988) examines the accounting practices of a chemical company facing significant price decreases due to an oil crisis. These studies demonstrate that budgeting practices shift from relatively loose, informal and decentralized coordination focus to tight systems focused on formal planning and centralized goals when under crisis. More recently, Becker, Mahlendorf, Thaten, and Schäffer (2015) distributed a survey at three points during the 2007–2008 financial crisis and found that the planning and resource allocation functions of budgeting become more important during crisis while performance evaluation activities become less important. These studies, which identify changes to accounting in response to crisis, are relevant to decline because the researchers focus their analyses on the enduring nature of the performance decline resulting from crisis.[5]

In addition to these studies examining the role of accounting in crisis situations, two studies examine the role of accounting in shaping the strategies of poorly performing organizations. Roberts (1990) describes how accounting is used in the design and implementation of strategy in an organization recently formed through a merger and acquisition that is experiencing significant financial difficulties. He identifies decentralization and introduction of annual conferences (held for organizational members to establish shared understandings and knowledge) as helpful ways to institute accountability. Similarly, Skaerbaek and Tryggestad (2010) investigate the role of accounting in shaping the strategy of a ferry operator slated for closure. They show that accounting tools were initially used passively and subordinate to strategy but were eventually used actively to reframe the ferry's strategy and recognize that external challenges could be managed. In these studies, accounting played an

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[5] Decline and crisis refer to ambiguous situations that threaten organizational survival; consequently, many researchers use the terms interchangeably (e.g., Lamberg & Pajunen, 2005; Rosenblatt & Sheaffer, 2001). When researchers do make a distinction, it is in "the speed with which the two phenomena occur and the amount of time decision makers have to respond" (McKinley, Latham, & Braun, 2014, p. 90). Because I focus on the pattern of environmental change and, in particular, discontinuous and unpredictable change, decline in my setting is related to crisis. However, definitions of crises do not refer to the enduring effects on performance that characterize decline, the focus of my study.

integral role not only in organizations' formulation of strategy but also in the management of their financial difficulties.

These studies highlight ways in which accounting changes during organizational decline be it a move from loosely coupled to tightly controlled budgets or use of management accounting with a greater emphasis on planning and resource allocation versus performance evaluations; however, they do not identify the conditions under which such management accounting tools are mobilized during decline, nor do they detail how management accounting is used to manage organizational decline specifically.

2.2.3 *Typology of environmental decline*

As I discuss in the methods section, I arrived iteratively at the typology I adapt from Zammuto and Cameron (1982, 1985; Cameron & Zammuto, 1983) to analyze my research question about the role of management accounting in organizational decline. For ease of exposition, I introduce this typology here while acknowledging that this was not an ex ante theoretical decision but, rather, emerged from the interaction between a set of potential theoretical frameworks and my early observations in the field. Justification for this approach is found in the Research Methods section.

Focusing on environmental change, Zammuto and Cameron develop a typology that distinguishes four types of decline experienced by organizations (see Figure 2.1). Specifically, the typology examines how two dimensions of environmental change can lead an organization into decline and why organizations experience and respond to decline differently. In this section, I define key theoretical terms, describe the two dimensions of environmental change and resulting four types of organizational decline, and then highlight the behaviours expected of organizations as they relate to the dimension of change I focus on in my analysis.

2.2.3.1 Key theoretical terms

I begin by defining an ecological *niche*.[6] Zammuto and Cameron view the environment as composed of various niches (others who do this include Baum & Singh, 1994; Dobrev & Tai-Young, 2006; see Baum & Shipilov, 2006 for a review). A niche is a sub-part of an industry representing a collection of organizations that produce the same products/services (Zammuto, 1988; Zammuto & Cameron, 1985). Organizations in a niche are thus in competition with each other for the resources required to produce their product/service as well as to capture a significant portion of consumer demand (Hannan & Freeman, 1977; Hutchinson, 1957). Because organizations in a niche are bound by the same resources, constraints, and consumer demand, there is a limit to the amount of products/services a niche can support and, hence, to the number of organizations a niche can sustain. This limit is referred to as a niche's *carrying capacity* (Zammuto & Cameron, 1985). Appendix 2A compiles these and subsequent key terms for reference (in the order they appear in text).

2.2.3.2 Dimensions of environmental change

As shown in Figure 2.1, organizational decline is theorized to be determined by two dimensions of environmental change. The first dimension focuses on a niche's configuration; either niche size or niche shape can be impacted by environmental change.[7] A decrease in niche size suggests that the volume of products/services once supported by the niche's carrying capacity (i.e., the maximum number of organizations a niche can support) can no longer be supported (Zammuto & Cameron, 1982). The size of a niche decreases when consumer demand weakens, supply of an

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[6] Porter (1985) uses the term "niche strategy" to refer to an organization's decision to focus on a particular target segment (i.e., customer, product, or geographic). In the theoretical framework I use in this research, "niche" refers to a market in which a population of organizations competes.

[7] If an organization operates with a single product/service or a narrow set of products/services (i.e., a specialist), it will be more affected by changes to niche size and/or shape since revenue from other products/services is not available to subsidize the product/service in decline. This is an important consideration for selecting research sites. I aim to avoid generalist organizations (that can cross-subsidize variations in performance with a broad range of products/services) and instead target specialist organizations in which the effects of decline are especially prevalent. In cases in which I do recruit a generalist organization, I have sought to include ones where all of its segments are experiencing decline to ensure the challenges of decline are still felt.

input decreases, or other resources supporting the niche become restricted. Alternatively, a shift in niche shape suggests that the type of products/services once supported by the niche's carrying capacity has changed. The shape of a niche shifts when consumer preferences and tastes evolve or when technological innovation renders a product/service obsolete (Zammuto & Cameron, 1982, 1985).

The second dimension in Figure 2.1 distinguishes the pattern of change. The pattern of change describes the onset of an organization's decline, which determines the organization's opportunities to recognize and respond to decline. When environmental change is discontinuous and unpredictable, organizational members are afforded fewer, if any, opportunities to anticipate change or take early action (Zammuto & Cameron, 1982). When decline results from such change, it is not that the sum of the losses is greater than that found in continuous and predictable change but, rather, that the decline arises quickly and severely enough that managers perceive it this way. Alternately, when environmental change is continuous and predictable, organizational members can rely on past experiences and trends as a guide for decision making and action (Cameron & Zammuto, 1983). Organizational members also benefit from early warning signals that potentially enable them to anticipate the change and minimize, delay, or avoid the effects of decline.

These two dimensions of environmental change combine to highlight four types of organizational decline: (1) contraction due to a discontinuous and unpredictable decrease in niche size, (2) catastrophe due to a discontinuous and unpredictable shift in niche shape, (3) erosion due to a continuous and predictable decrease in niche size, and (4) dissolution due to a continuous and predictable shift in niche shape (see Figure 2.1). Depending on the type of

decline an organization faces, Zammuto and Cameron describe a number of behaviours that are expected from organizational members.

Because organizations' use of accounting did not differ with the type of change in niche configuration (i.e., decrease in niche size or shift in niche shape), I focus on the dimension that distinguishes the pattern of environmental change (i.e., (dis)continuity and (un)predictability). However, as noted in Chapter 4, all four cells are necessary to describe the strategic responses and other behaviours of organizations in decline, which is what Zammuto and Cameron intended their typology to be able to explain (see Figure 2.2). Refer to Chapter 4 for an analysis of the six organizations in this study according to the expected behaviours unique to each of the four types of organizational decline.

2.2.3.3 Expected behaviours during (dis)continuous and (un)predictable decline

In this section, I focus on the expected behavioural differences due to the pattern of change dimension in Zammuto and Cameron's typology. Discontinuous and unpredictable change results in immediate awareness by organizational members. Decline in this case arises in a short period of time and, as a result of this rapid onset, is perceived as more significant to organizational members, leading to clear awareness of their changed environment (Zammuto, 1985; Zammuto & Cameron, 1982). The discontinuous nature of change is shocking to organizational members. With no early warning signals—since the environmental change was neither gradual nor anticipated—organizational members define the change and the resulting organizational decline as a threat (Zammuto & Cameron, 1982). Here, threat refers to a negative situation in which organizational members feel a loss of control and believe performance losses are likely (Chattopadhyay, Glick, & Huber, 2001; Dutton & Jackson, 1987). Furthermore, no predictability means that organizational members are not able to anticipate change or take early

action. Organizational members cannot rely on past experience (since their environment has changed so quickly) and are afforded little time to plan a careful response when change is discontinuous and unpredictable. Instead, they must rely on coping tactics (which refer to managers' predispositions and tactics used in decline) that are reactive or experimental due to the speed of the required response (Zammuto & Cameron, 1982, 1985).[8]

In contrast, when change is continuous, decline is the result of an accumulation of small-scale gradual changes. Decline that arises from these potentially imperceptible changes suggests that organizational members will become aware of their organizations' decline more slowly (if at all) (Zammuto & Cameron, 1982). The gradual nature and ability to anticipate this type of change means organizational members will not feel any major shock. As a result, they are expected to define the environmental change and their organization's resulting decline as an opportunity (Zammuto & Cameron, 1982). Here, opportunity refers to a positive situation in which organizational members feel in control and believe performance improvements are likely (Chattopadhyay, et al., 2001; Dutton & Jackson, 1987). Additionally, organizational members are better able to cope when their organization's circumstances are predictable. Early warning signals enable organizational members to potentially anticipate change; make contingency plans; and use proactive coping tactics to minimize, delay, or avoid the effects of decline. If there is less awareness of decline, coping tactics will instead be inactive (Zammuto & Cameron, 1982, 1985).

Whether organizational members perceive decline as a threat or an opportunity is important since managers' interpretations of environmental change have a key influence on their actions (Thomas, Clark, & Gioia, 1993). Research shows that threats result in poor decision making due to the limiting effects of threat-rigidity (Staw, Sandelands, & Dutton, 1981),

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[8] The typology formally refers to "behavioural tactics" (see Appendix 2A), but for ease of exposition, I use the label "coping tactics".

especially during organizational decline (McKinley, et al., 2014; Mone, McKinley, & Barker, 1998). When organizations face a threat such as decline, the threat-rigidity thesis suggests that organizations will experience increased centralization, reduced information processing, and conservation of resources. To elaborate, increased centralization refers to a mechanistic shift in which authority is centralized and there is an increase in the use of formalized procedures and standardized activities. Reduced information processing includes a reduction in both the number of alternatives considered and the information channels used. Finally, conservation of resources results in a focus on efficiency, which is suggested to include budget tightening, cost cutting, and increased accountability pressure (Staw, et al., 1981). These effects lead to rigidity such that organizational members rely on learned routines and past behaviours (Staw, et al., 1981).

2.2.4 Summary

In summary, "the interactions among organizational characteristics, perceptions, actions, and environmental conditions will affect the type of decline that each individual organization within a population experiences" (Zammuto & Cameron, 1985, pp. 244-245). Further, Zammuto and Cameron (1985, p. 232) suggest that "the value of the typology lies in its ability to explain why differences exist in the population dynamics and organizational behaviour that are observed" when faced with different dimensions of environmental change. Motivated by this reasoning, I expect the pattern of change dimension in the typology to illuminate differences in organizations' use of management accounting. In particular, awareness is important to triggering a response to decline, so I expect it to influence whether and how organizational members use management accounting to manage decline. Likewise, I expect the consequences of threat-rigidity to extend to whether organizations mobilize management accounting during decline. Finally, I expect whether organizational members are able to predict environmental change (or

not) and use proactive (reactive) coping tactics to influence how organizational members use

management accounting (e.g., planning versus monitoring) as well as the focus of the metrics

they choose to rely on.

2.3   Research Methods

Case study methods are valuable when researchers want to ask "how" questions about

contemporary complex events, especially when researchers want to observe and understand the

context within which people behave and make decisions (Myers, 2009; Yin, 2013). Accordingly,

case study methods are well suited to address my research question.

2.3.1   Site selection

To provide an initial broad-based context for my research, I start by interviewing five

"turnaround" consultants to collect insights on their experiences with clients in decline (i.e.,

clients for whom they consulted or interim management positions they held). I then recruit five

private sector organizations and one public sector organization to participate in this research by

following a four-stage approach outlined in Table 2.1.[9,10] I intentionally do not include

organizations facing bankruptcy proceedings or organizational "death" in my site selection since

their circumstances and uses of accounting could be quite different. Organizations that are

undergoing restructuring or divesting assets in preparation for closure face different

organizational objectives, and, hence, their managers' use of accounting is likely to differ from

that of managers of organizations in decline that are pursuing turnaround. I also avoid relatively

new or small organizations because of their higher propensity to fail as discussed in research on

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[9] I conducted a pilot study in one organization to ensure that my methods were appropriate, organizational access was possible, and data were amenable to analysis. This organization is included in my final set of six organizations.

[10] Two recruited organizations (AutoCo and MiningCo) are organizations that I or personal contacts were familiar with. They were referred to me because they were currently facing or had recently faced decline. Since they are private subsidiaries, I did not gain access to their financial statements. In addition to the referrer's feedback, I made sure to at least confirm decline through decreasing revenues (the most commonly used metric in decline research) as well as through steps 3 (when possible) and 4, as described in Table 2.1. Organizations recruited later were rigidly assessed according to steps 1 through 4.

the "liability of newness" and the "liability of smallness" (Baum & Shipilov, 2006). Following

prior research on these concerns (D'Aveni, 1989), my sites are at least nine years old and have

revenues greater than $100 million (prior to the onset of decline).

These six organizations were not selected in pursuit of generalizability but, instead, to

include replication within my research design. Yin (2013) distinguishes "sampling logic," where

the aim is to select a sample that will represent a larger universe, from "replication logic," where

the aim is congruence (i.e., to confirm expected findings) across multiple case studies (see Yin,

2013 pp. 57-59 for a discussion of sampling versus replication logic).[11] In this study, I follow

replication logic to increase validity and make my findings more robust.

2.3.2   Interviews

I complete 34 interviews between April 2013 and June 2014. Within each organization, I target

key executives including accountants. I also follow up on specific suggestions made by

interviewees regarding others I should speak with. I had the opportunity to conduct field

observations on six occasions (including site tours of most organizations). Interviews are semi-

structured and average 50 minutes in length (see Table 2.2 for details of interviews conducted).

Nearly all of the interviews are conducted face to face and are recorded to allow for accurate and

comprehensive transcriptions.[12] I personally transcribe each interview and review it multiple

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[11] Several dozen organizations were contacted to see if they met the criteria for organizations in decline that would have led, if eligible, to an invitation to participate in the project. Numerous organizations that met the criteria declined to participate citing concerns of the time that would be required or that key executives would not be interested. This leads to selection bias concern. To dispel this concern, I offer two rejoinders. First, it seems as though organizations were not motivated to agree (or decline) to participate based on their use of accounting (or lack thereof) since three organizations in this study mobilized accounting during decline while three other organizations did not. Second, before inviting organizations to participate, I carefully screened each to ensure it met my definitions and criteria for decline (see Table 2.1). Not only did I exclude organizations during this initial screening process but I also declined to conduct fieldwork in some organizations that agreed to participate (i.e., when a preliminary interview highlighted that the organization was not a suitable research site). In sum, my primary focus while determining research sites was to maximize my variable of interest—an organization's experience with decline—in order to learn whether and how organizations use accounting during these circumstances.

[12] For two interviewees who decided not to be taped (and in four instances in which I did not ask permission to record the interview because they were preliminary interviews intended to recruit an organization that evolved into discussions relevant to this study), I took notes during the interviews to capture their responses. I prepared a question guide with a significant amount of

times during my analysis. Each transcript is sent to the interviewee to make corrections and provide clarifications. I intend to distribute copies of the findings to participants as working papers are finalized.

My approach to interviews is to position myself as a learner and active listener. I use open-ended questions but ultimately try to keep my own words to a minimum so that participants can describe their experiences, provide instructive examples, and think out loud (Patton, 2002; Yin, 2013). I use the first part of an interview to gain additional contextual knowledge about the organization beyond publicly available documents. In the second part, I elicit from interviewees their perceptions of their organization's challenges, their use of accounting in their positions, and what information helps them understand or manage decline. I let the interviewees talk openly and at length. I use prompting questions to refocus interviewees by pointing to a challenge they previously identified and asking him or her to talk about how accounting informed the issue (see Appendix 2B for sample interview questions).

In each organization, I terminate interviews at the point of saturation (Eisenhardt, 1989; Malsch & Salterio, 2015)—that is, when respondents provide no new information that informs my understanding of the use of management accounting during organizational decline. This resulted in a greater number of interviews conducted in HealthCo to ensure I had principled reasons for determining when saturation was reached.[13] At subsequent research sites, respondents' descriptions of their use of management accounting (or lack thereof) converged after only a small number of interviews from carefully selected participants.

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white space in advance, recorded as many comments as possible in shorthand, and made a deliberate attempt to confirm responses with interviewees to confirm my note-taking.
[13] I also conduct more interviews in HealthCo because a related study (see Chapter 3) focuses on the unique issues of public sector entities. The analysis in this chapter relies on 10 interviews with 8 participants whereas Chapter 3 relies on an expanded set of 6 additional interviews with 8 new participants.

2.3.3   *Theory development and data analysis*

Ahead of entering the field to collect data, I develop a range of theories and frameworks (across a range of topics and at micro and macro levels) to prepare for and sensitize myself to be able to recognize and understand various tentative ideas as they materialize in preliminary interviews. Iteratively, I focus in on the theories that appear to be most helpful to analyze data and construct significance. The interplay from my initial interviews and this theorization lead me to focus on Zammuto and Cameron's typology of environmental decline (introduced in Section 2.2.3), which I employ to guide my analysis and frame my results.

I follow Ahrens and Chapman's (2006, p. 836) prescriptions of "iteratively seeking to generate a plausible fit between problem, theory and data" as I conduct interviews, review transcripts, and analyze data. I use NVivo to code the interview transcripts to facilitate the sorting and extraction of data. I use theory to illuminate and discipline my observations and to help me organize and understand my data (Ahrens & Chapman, 2006). During each interview and from one interview to the next, my aim is to test, refute, or refine suitable theories to help me understand interviewees' narratives (Ahrens & Chapman, 2006). Once the majority of interviews are complete for a single research site, I integrate interviews with secondary data sources to compose a case study of each organization.

Upon completing individual case studies for each organization, I engage in patternmaking to search for compatible and contradictory findings between organizations, compare interview perspectives across themes, and reflexively consider explanations and fit with theory (Yin, 2013). This consists of ongoing hypothesizing and theorizing. I employ within-case analysis to understand each organization's experience with and response to decline, whereas cross-case analysis helps me understand the similarities and differences in the use of management

accounting and enhances the credibility of my findings (Eisenhardt, 1989; Lillis & Mundy, 2005; Malsch & Salterio, 2015). My aim is to isolate instances in which organizations use accounting to manage decline, to identify similar uses between organizations, and to examine plausible theoretical explanations for their occurrence. I test and challenge key insights from Zammuto and Cameron's typology and retain and explore ideas when they are supported. I remain alert to anomalous data and their effect on my theorizations.

In addition to interview data, other documents that inform my analysis include (1) field notes of my initial thoughts, reactions, and observations of each interview (including notes taken during opportunities to conduct observation); (2) internal documents provided by interviewees (e.g., company overviews, industry information); and (3) an extensive number of secondary materials (e.g., news articles, annual reports, financial statements).[14]

2.3.4 *Introduction to case sites and classification into Zammuto and Cameron's typology*

In this section, I introduce each organization and the various challenges they faced leading to each organization's perceived decline. Table 2.3 provides high-level descriptive data (consistent with protecting the anonymity of each organization) for each organization, Table 2.4 summarizes the evidence that supports the contention that each organization was in decline, and Figure 2.2 shows the classification into Zammuto and Cameron's typology (see Chapter 4 for more details on this classification).

2.3.4.1 *AutoCo*

AutoParent is a public company listed on the Korea Exchange operating in the auto parts and equipment industry. I obtained access to AutoCo, one of AutoParent's 11 subsidiaries. AutoCo manufactures, sells, and distributes PartX for automobiles at its two production plants. AutoCo is

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[14] Because of the confidentiality assured to organizations and participants, I do not reference or cite these materials in my analysis. However, several hundred news articles and dozens of publicly available company reports were critical to my interview preparation, for confirming interviewees' narratives, and for composing each organization's case study.

affected by the cyclical nature of the automobile industry, which is associated with a range of economic and social factors (e.g., consumer spending and preferences, oil supply and gasoline prices, environmental issues). As a result, declines in sales, production cutbacks and shutdowns, and labour issues at AutoCo mirror the automotive industry.

AutoCo's decline began in 2008 in relation to the crisis in the automotive industry that resulted in government bailouts for two of the top manufacturers in North America. In describing how the crisis affected AutoCo, the leadership team identified many of the economic and social factors that affected the economy generally as well as additional challenges. First, because two of the "Big Three" North American automobile manufacturers were in bankruptcy protection, the number of orders AutoCo was accustomed to receiving as an auto parts supplier decreased rapidly. Second, respondents emphasized the significant swing in CDN/USD exchange rates over a very short period such that AutoCo's primarily US customer base shifted from having strong buying power in Canada to being charged a premium for Canadian auto parts. Respondents also noted higher operating costs in Canada compared to major competitors in Mexico and a constant balancing act between AutoCo's suppliers increasing their prices while major auto manufacturers (i.e., AutoCo's customers) expect ongoing price decreases. Motivated by AutoCo's poor performance, executives engaged consultants in a viability study to determine whether the organization should remain open.

The environmental change that led to AutoCo's decline was discontinuous and unpredictable (see Figure 2.2). Though the automobile industry is customarily deemed to be a cyclical industry, the combination of the 2008–2009 recession and financial crisis and the 2008–2009 automotive industry crisis resulted in unprecedented decreases in automobile sales and production levels. Canadian automotive industry sales decreased from a peak of $120 billion to

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$53.5 billion in 2007 (the lowest level since 1992) while North American vehicle production levels decreased from 15.1 million units in 2007 to 8.6 million units in 2009 (*McKinsey*, 2012). The automobile industry was "on the brink of collapse" (*The Financial Crisis*, 2013, p. 22), which led AutoCo to face performance challenges beyond those predicted and discontinuous compared to ordinary cycles in the industry.

2.3.4.2 HealthCo

HealthCo is a public sector organization operating in the healthcare facilities service industry (i.e., hospital).[15] HealthCo is a leading institution in providing complex-acute and specialty care to patients. Most services are delivered at its main hospital, but HealthCo also services patients at a number of satellite and affiliate sites in its respective catchment area. HealthCo is a research and teaching hospital affiliated with a medical school to help train students and conduct research. HealthCo receives approximately 90 percent of its funding from the provincial government, which is distributed on behalf of the government through a Regional Health Authority responsible for planning, funding, and integrating the provision of healthcare according to geographic regions.

Throughout the late 1990s and early 2000s, the government cultivated an environment in which spending was encouraged, deficit budgets became customary, and hospitals were routinely bailed out and provided additional funds at year end. HealthCo assumed a culture of overspending and accumulated years of drawing on the capital budget to fund operations instead of investing in building and equipment. In the mid-2000s, the government began enforcing

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[15] There are two key differences in this public sector case study compared to the other cases in this research. First, performance metrics are different. Instead of profits, delivering quality patient care is the key performance metric, though it is still very important for hospitals to monitor their finances and achieve a balanced budget. Second, unlike for-profit organizations, which aim to grow revenues, HealthCo is a publicly-funded institution with limited opportunities to seek funding increases or access alternative revenue sources. It is important to note that, while HealthCo is a public sector organization, it still faces some of the same risks as private sector organizations concerning decline and bankruptcy; see, for example, the increasing number of public sector bankruptcies in the news (e.g., "Detroit's bankruptcy," 2014; Wells, 2012).

accountability agreements including balanced budgets. By then, HealthCo faced assets in disrepair, fully drawn credit facilities, declining performance indicators, and growing deficits. Compared to its peer hospitals, HealthCo believed that it had higher costs for various reasons (e.g., old infrastructure, older than average population) and that it was receiving a disproportionately low amount of funding. Continued annual deficits followed by submission of a significant deficit budget led the government to assign a supervisor to investigate HealthCo's circumstances. The supervisor immediately dismissed the existing board of directors and the majority of the leadership team including the president.

The environmental change that led to HealthCo's decline was discontinuous and unpredictable (see Figure 2.2). The government made a sudden change to begin enforcing accountability agreements with hospitals rather than continue to permit deficit spending (HealthCo had previously been able to secure funding increases as high as 19 percent in 2004 to fund deficit spending). This change was shocking to executives at HealthCo since they had budgeted an eight percent operating budget deficit for this same year. As a result, HealthCo executives were required to immediately eliminate their intended budget deficit and begin to restore significant dollars that had been diverted from the capital budget to fund operations.

2.3.4.3 *RetailCo*

RetailCo is a public company listed on the Toronto Stock Exchange operating in the department stores industry. As a multiline retailer, RetailCo operates a number of merchandising formats, engages in direct sales, earns revenue from retail-related commission-based businesses, and earns real estate revenue from several joint ventures (still connected to retail).[16] For RetailCo's

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[16] It might seem that, with such varied revenue lines, diverse store types, and wide range of products/services, RetailCo should benefit from cross-subsidization in which different products/services succeed at different times to avoid or minimize decline. RetailCo has not had much success with any particular segment (even at the department level within stores) to benefit from this, so all of RetailCo is facing decline.

case study, I obtained access to the entire corporation. RetailCo experienced a period of growth throughout the 1990s and early 2000s leading to stable revenues until 2007/08.

A number of challenges led to RetailCo's decline. A large number of international competitors entered the Canadian retail landscape—referred to as "the American invasion" of the mid-2000s (VP Communications 26). This same time period also saw real estate transition from enclosed malls to big-box layouts and, hence, the arrival of big-box stores to Canada, which are appropriately referred to as "category killers". Even now, there are a number of major US retailers (as well as retailers outside North America; e.g., China, United Kingdom) that either have committed to or are seriously considering entering the Canadian market. Additionally, 2008 and 2009 in particular were years of tremendous growth in e-commerce sales resulting in consumers gaining an extensive number of retail alternatives. RetailCo's situation is not helped by the fact that 80 percent of Canadians live within 150 kilometers of the US border, which offers an assortment of unique retail alternatives. Additional challenges common to the retail industry include fickle fashion trends, high rates of employee turnover, and weather/seasonality, the latter of which can lead to significant effects on performance.

The environmental change that led to RetailCo's decline was continuous and predictable in early years: the introduction of e-commerce resulted in a gradual replacement of in-store sales with online sales over a ten-year period. However, the pattern of environmental change became discontinuous and unpredictable (see Figure 2.2). First, the transition from in-store to online sales has not remained gradual (e.g., total retail sales in Canada increased 2.9 percent while total e-commerce sales increased by 16.3 percent from 2011 to 2012 ("Statistics Canada," 2013)). Second, both the unprecedented number of new competitors to the Canadian retail landscape and the increasing number of retailers willing to ship their products internationally in recent years

were not anticipated and, thus, led to discontinuous and unpredictable change. The shift to discontinuous and unpredictable change is supported by the fact that RetailCo has experienced repeated failures in its transformation efforts (e.g., "recovered" business lines are no longer recovered) and has responded by adopting multiple different transformation plans over the years.

2.3.4.4 *MiningCo*

MiningParent is a public company listed on the OMX Stockholm Stock Exchange. It operates in the metal and mineral mining machinery and equipment industry. MiningParent has four general business areas that manufacture industrial tools and equipment. I obtained access to MiningCo, which operates a production plant belonging to one of MiningParent's business units. MiningCo manufactures and markets tools used with mining exploration equipment. MiningCo's performance closely mirrors business cycles experienced in the mining sector since the first activity mining companies cut in downward cycles is exploration leading to corresponding decreases in orders for mining tools at MiningCo.

In recent years, mineral exploration spending has decreased significantly across the globe and especially in Canada, which experienced the largest spending decline across the globe (Canada has been ranked the top exploration country since 2002) (*SNL*, 2013; *SNL*, 2014). Unlike its competitors, MiningCo does not conduct exploration and is thus not able to counterbalance the cyclical nature of the industry by initiating its own exploration activity to generate an alternative revenue stream (i.e., exploration stimulates demand for MiningCo's tools). Accordingly, demand for MiningCo's tools began to soften in 2012, decreased throughout 2013, and stabilized at this low level in 2014. MiningCo's performance is also affected by the fact that its key raw material is steel. Compared to other industries, MiningCo is considered a

relatively small buyer but heavily dependent on steel suppliers. As a result, it has difficulty negotiating competitive prices, especially when steel companies face decline as well.

The environmental change that led to MiningCo's decline was continuous and predictable (see Figure 2.2). MiningCo has access to extensive industry information by following exploration activity, mining industry cycles, and steel industry cycles. This makes change in the environment relatively predictable, especially since decreases in the purchase of MiningCo's tools lag behind changes to exploration activity. Speaking of the market intelligence accessible to MiningCo, the CEO noted, "It's very predictable, actually." Although mining exploration spending decreased by 41 percent (29 percent) in Canada (globally) in 2013 (*SNL*, 2013; *SNL*, 2014), members at MiningCo described the decrease as a trend they had been following and which did not surprise them.

2.3.4.5 *AgriCo*

AgriParent is a public company listed on the New York Stock Exchange operating in the fertilizers and agricultural chemicals industry. AgriParent has two business units. I obtained access to AgriCo, the unit that mines a single product, ResourceX, at several sites. AgriCo is a commodity-based business. In commodity markets, intense competition usually results in organizations competing primarily on price, leading to low profit margins. In the case of AgriCo, the organization is involved in a marketing and distribution joint-venture (responsible for the logistics of all ResourceX shipped outside of North America) with its two main competitors in North America. This cartel-like agreement means that AgriCo is a price-taker and, hence, focuses mainly on cost. In addition to competing in a commodity market, AgriCo's key customer category of crop growers are also commodity-based, which means that AgriCo's industry suffers

when farmers experience variable grain prices, poor crops, and difficult weather. With these various factors beyond its control, AgriCo is known to suffer downturns in business.

Recently, AgriCo has faced several challenges. Over 2011–2012, two of AgriCo's competitors made major announcements. Competitor 1 announced the construction of a new mine that would extract ResourceX in the same geographic region, and Competitor 2 began construction on what will become the world's largest ResourceX mine. These new mines were significant not only because they add two major competitors to the fertilizers and agricultural chemicals landscape previously dominated by three producers but also because AgriCo's particular geographic region has not faced the entry of any new mines in nearly 40 years. Additionally, an international competitor, Competitor 3, caused a major disruption with another marketing and distribution joint-venture and announced its intent to maximize production of ResourceX to disrupt the practice of limiting supply in pursuit of higher prices.

The environmental change that led to AgriCo's decline was continuous and predictable (see Figure 2.2). Though it might seem that the number of challenges AgriCo faced indicates discontinuous and unpredictable change, respondents at AgriCo did not perceive them as such. The VP Operations (who had been with the organization for more than 30 years) noted that "[he'd] seen these fluctuations many, many, many times" and stressed that "the fundamentals of the business didn't change" (VP Operations 20). AgriCo benefits from the relative predictability of residing in a commodity market into which future product can be sold at a predetermined price. The use of futures and hedging as well as global agreements among major competitors provide stability since price and production levels are predetermined. Further, while ResourceX prices used to be extremely variable (ranging from 50 to 300 percent of current price), they have become relatively more stable since 2010 (ranging from 100 to 150 percent of current price).

2.3.4.6 MediaCo

MediaCo is a public company listed on the Toronto Stock Exchange operating in the publishing industry. MediaCo has two key reporting segments—media and book publishing—that include several related business units. I obtained access to the entire corporation. During the course of my study, MediaCo sold one segment to a global competitor and integrated its digital business unit within other units. With its remaining segment, MediaCo produces and disseminates a range of news-related publications, conducts business by providing services related to these publications, and has a variety of joint ventures and equity investments in related businesses.

A number of challenges—driven by the evolution of digital technologies—led to MediaCo's decline. The publishing industry started to change 15 years ago as the internet became popular and consumers gradually began to shift away from print towards digital consumption. For MediaCo's media segment, the emergence of the internet created low barriers to entry, which led to numerous alternate digital news sources for customers. As a result, a product once accessed via a subscription fee became widely available and, in many cases, free of charge. Furthermore, advertising revenues (on which media businesses are highly dependent) decreased significantly because of the lower costs and extensive options available to advertise digitally. MediaCo's book publishing segment faced a similar shift towards digital consumption. As an added consequence, MediaCo must now deal with a few powerful distributors instead of relying on a large network of brick-and-mortar distributors for its book sales.

The environmental change that led to MediaCo's decline was continuous and predictable (see Figure 2.2). In the publishing industry, the introduction of the internet and various digital reading devices began in the early 2000s. Confirming the continuous nature of change, media print consumption decreased from 41 to 29 percent while online consumption increased from 24

to 39 percent from 2004 to 2012 (Sasseen, Olmstead, & Mitchell, 2013). Further, book publishing revenues shifted from print to digital by five percent per year from 2008 through 2013 (CEO 21).

2.4   Analysis

It was a common theme for executives of all organizations regardless of their classification into Zammuto and Cameron's typology to indicate that, during the "good years", they had not paid as much attention to their systems and uses of accounting. One respondent typified this theme: "You have to remember that, prior to this downfall, [we were] very successful. And, unfortunately, when you are very successful, you sometimes let your reporting slip—it's not so important because you just make money" (AutoCo, Financial Analyst 9). More pointedly, a respondent from another organization stated, "the seeds of your demise are sown in the good times" (AgriCo, SVP Operations 19). This phenomenon was highlighted as a problem not exclusive to the accounting function but one that applied more generally as organizations shift into decline:

> *When you're going along at a pretty good pace, you tend not to have as many issues—there's more visibility. It's like, you know when you're in a swamp, and you lower the swamp, and all the deadheads come up? It's the same idea. When things slow down, then you start to see where you've got issues, and then you have to address them. They become much more visible.* (MiningCo, Finance Manager 12)

2.4.1   Discontinuous and unpredictable environmental change

As indicated in the case introductions in Section 2.3.4, AutoCo, HealthCo, and RetailCo all face decline due to a discontinuous and unpredictable change in their environment.

Consistent with this classification, the events that led to AutoCo's and HealthCo's decline established immediate awareness and were defined as threatening. The viability study initiated by AutoCo executives and the appointment of a supervisor and dismissal of key leaders and board members at HealthCo confirm awareness. Indicating feelings of threat, a respondent at

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AutoCo specified a particular revenue range that was "very difficult to survive in" and then noted that AutoCo's revenues were even lower (Financial Analyst 9). Reflecting on HealthCo's situation, a respondent described that "everything [was] doom and gloom" (Program Director 6).

As noted in Section 2.3.4.3, RetailCo's decline began as continuous change but more recently reflects emergent discontinuous change. Consistent with this classification, organizational members' awareness and perceptions of decline varied. Accounting respondents spoke with concern and were forthcoming in noting, for example, that "it's no secret that we're not performing [well]" (VP & Controller 27). In contrast, non-accounting respondents spoke with excitement regarding "opportunities to grow [the] business" (VP Operations 25).[17] I discuss these three organizations' use of accounting during decline in the next section.

2.4.1.1 *Cleansing the numbers so they can be relied upon*

Owing to the jolting nature of discontinuous change and resulting perceptions of threat, executives at AutoCo, HealthCo, and RetailCo responded to decline with reactive coping tactics by engaging in extensive reviews of their accounting systems and reports—referred to as "cleansing the numbers" (AutoCo, CEO 10)—in order to convince themselves that the information could be trusted and relied upon.

Before the onset of AutoCo's decline, respondents described a relative non-reliance on accounting (i.e., antiquated systems, numbers that did not tie in, no daily/weekly reporting). AutoCo engaged in an extensive process to "cleanse and recalibrate" (CEO 10) its accounting system and "re-establish some credibility for the function" (Controller 11). Executives reviewed cost centre allocations and confirmed data were tying into reports correctly. For example, the CEO described "deep diving" into labour; it was "a whole lot of tinkering and adjusting, insanity

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[17] The variation here might also be explained by the fact that RetailCo made several sales of significant assets (e.g., joint ventures, investments, lease terminations) such that cash inflows generated slack to withstand the full effect of decline.

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and cleansing". The credibility that started to build from reviewing and cleaning AutoCo's accounting system helped the accounting group reintroduce reporting. Key to reviewing and re-engaging with accounting was reacquiring some of the legacy knowledge (and passwords) pertaining to reporting that was lost during many rounds of layoffs at AutoCo. This cleansing process had carryover effects on improving the information used to quote for new business, inputs to budgeting and forecasting, and implementation of "Daily Accountability" meetings.

Like AutoCo, HealthCo's organizational members criticized their prior use of accounting (i.e., no transparency/accountability, scratching for data, untimely reporting). HealthCo's executives also performed an extensive review of the existing accounting system. First, they consolidated the number of cost centres and then hosted meetings in which they educated managers to ensure accurate cost assignment. Second, the performance management team met with one director at a time to review existing spending habits aiming to cut out $30 million of expenses. The Performance Management Director described the process as follows:

> *So, we put a team of people together, and we literally set up a process—an exhaustive process—where we dragged every director or program leader of a budget of a functional area in the organization through a process where we would—it took months to prepare this—but we would go through their budgets line by line in relation to percentile performance and benchmarks from other teaching hospitals....* (HealthCo, PM Director 3)

The cleansing process employed at HealthCo resulted in the introduction of new performance metrics, which are distributed regularly to program directors and other organizational members. The process was facilitated by pairing each director with a financial analyst to support new accounting requirements; establishing a performance management group to perform the analytical work; and bringing in peers from other hospitals as well as a consulting firm for additional expertise. These were important structures enabling an organization in catastrophe to engage in experimental coping tactics while having experts in place to ensure nothing too extreme is attempted.

RetailCo executives also questioned the truth and value of accounting. All agreed that "this corporation has never lacked reports..., [but] we have a lot of reports that lack insights", so the objective was to "get to one version of the truth" (VP Operations 25). Rather than have this disbelief prevent RetailCo executives from using accounting to manage decline, they reviewed the volume and content of reports. The VP Financial Planning and Analysis (FP&A), reflecting on this review, described a cursory process that was "based on more of a high-level view". The VP and Controller elaborated on an outcome of the process:

> *One of the things we've done is we've locked down a lot of the reports that people can use so everybody is sort of looking at the same data in the same way.... If someone comes to a meeting, and they've got a report that no one else has seen, it immediately gets discounted, because it wouldn't have gone through the same QA [quality assurance] process.* (RetailCo, VP & Controller 27)

The less extensive cleansing that RetailCo executives described suggests that use of the process may be in an earlier stage in alignment with the emergent discontinuity of RetailCo's decline.

Because of the discontinuous pattern of change that led to awareness, AutoCo, HealthCo, and RetailCo were driven to reconsider their accounting systems and reports. Consistent with the expectation that organizations conserve resources due to threat-rigidity, organizational members (especially at AutoCo and HealthCo) engaged in cleansing processes to revise their accounting systems and reports so that they could rely on the accuracy of the information and facilitate efficient resource use. Following these cleansing processes, and in reaction to each organization's decline, members at AutoCo, HealthCo, and RetailCo mobilized accounting to make sense of their past; created easy-to-understand, digestible indicators; and implemented organization-wide accountability. I describe these uses in the sections that follow.

The first characteristic common to organizations in decline due to discontinuous and

unpredictable change is executives' use of accounting to make sense of their past and garner an

understanding of why and how declining performance set in.

AutoCo's CEO requested the prior year's income statements for another subsidiary of

AutoParent located in Mexico. He intentionally selected a subsidiary that manufactures the same

auto part as AutoCo but was experiencing growth. He then analyzed the comparator's income

statements to get a "snapshot of their cost structure" (CEO 10) and to understand how the

comparator had maintained good performance. The CEO also examined AutoCo's own

statements and focused in on what costs had been during their best years of performance. Costs

were further refined by taking out the influence of exchange rates to make sense of the decline.

Executives stressed that it was not just about finding out what had happened but also critical for

the organization to leverage this information in striving for a performance turnaround:

> *You have to go to the data to sort of go through it and find the answers; then you gotta*
> *use the data to drive the behaviour. And, if we don't do that, then the data's just a pile of*
> *information. We're not using it to draw any conclusions; we're just accumulating—and*
> *previously we were accumulating piles of data, not turning it into any kind of usable*
> *information and not using it to make any decisions. We were just looking at it like you*
> *would an autopsy, "Oh, the person died of a gunshot wound." Okay, I can see that, but*
> *how are we going to try not to get shot?* (AutoCo, CEO 10)

At the end of this exercise, the goal was to "go back to where [AutoCo was]... and even to go

back a little bit further" (CEO 10) with respect to performance.

By performing a similar exercise, HealthCo's CFO set out to deconstruct the

organization's previous financial statements in order to understand how HealthCo had arrived at

a deficit that peaked at seven percent of revenues. The CFO described the analysis as follows:

> *We called it "Understanding the Past"—so we went back to the last time this hospital*
> *had a balanced operating budget and a positive working capital position. You had to go*
> *back to 1995/1996.... So we had to go back, at that time, 13 years, to find where we had a*

good fiscal position.... So we were trying to sort out, you know, why did we [the new executive] find ourselves at the hospital and on the board? Why did we find ourselves in such a position of debt?

... So we went and took the 13 years' worth of audited financial statements and just compared, you know, what happened each year.... (HealthCo, CFO 2)

This information-seeking process was particularly important for HealthCo since firing most of the former leadership team and suspending the board meant departed leaders took with them important organizational history and information.

Unlike AutoCo and HealthCo, executives at RetailCo did not use historical accounting information to make sense of their organization's past. Respondents noted that the retail landscape had changed too much to be able to reference prior performance years as a tool to understand RetailCo's decline. To garner similar information of how RetailCo should be performing, executives relied on benchmarking to competitors in Canada and the US, asking questions such as, "What are the successful retailers? What do they do right, and what are their metrics?" (VP Communications 26). This information-seeking and comparison exercise enabled organizational members to make sense of their current situation and determine what improvements should be made going forward.

These sensemaking exercises were important to AutoCo, HealthCo, and RetailCo because discontinuous change means organizational members cannot rely exclusively on past experiences and trends. Instead, the shock of discontinuous change urged members to seek an understanding of the past in order to regain feelings of control that are lost when decline is defined as a threat. Researchers have long held that managers do not accurately perceive their environment, which results in poor decision making (Simon, 1991; Sutcliffe, 1994). In lieu of accurately perceiving the environment, managers only need to make plausible sense of it in order to construct a basis for action and timely decision making (Weick, 1993, 1995). This is particularly true for

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organizations in decline and aligns with the observation that AutoCo, HealthCo, and RetailCo all used accounting to understand how decline developed and make sense of their present circumstances. By redefining their understandings and perceptions, organizational members are able to reduce feelings of threat and begin to attempt recovery (Gioia & Chittipeddi, 1991).

2.4.1.3 Creating digestible indicators that are easy to understand

The second commonality—arising from feelings of perceived threat, imminent risk of failure, and the immediacy of a required response—is that executives found it was more effective to use indicators that were easy to "digest". Digestible indicators refer to metrics that avoid technical accounting jargon that is unfamiliar to most organizational members and instead use language that is easy to understand and clearly communicates the realities of decline.

At AutoCo, the executive team created unique measures to communicate to employees the role they hold in the organization's poor performance and to persuade them of the need for change. Leading up to and during AutoCo's decline, executives felt that a significant amount of labour was lost production time. Upon further investigation, executives uncovered that they "had paid 27 people effectively to do nothing" (Financial Analyst 9) in the prior week. Instead of relying on traditional metrics, executives found a more effective way to emphasize their concern for labour efficiency to employees: "Let's rope off an area, let's put 27 people in it, [and] let's give them all margaritas and lawn chairs while everyone else is working" (Financial Analyst 9). The metric was calculated by "still using the accounting data principles, but then we were presenting it in a way to really exaggerate [the time lost]" (CEO 10). These types of metrics were referred to as "hands-on" metrics that everyone on the production floor will understand, and the CEO specified that they used a lot of them to challenge employees to evaluate their own behaviour. Executives felt these metrics were the best way to use accounting principles with

frontline employees, because they were easy to understand and clearly communicated AutoCo's decline.

HealthCo adopted a similar strategy by drawing connections to things employees know and understand from their everyday lives. To explain to employees the financial difficulties HealthCo was facing, the COO likened the organization's debt to personal credit cards and the high interest rates that accompany overdraft:

> *They [employees] understand how money works. They all have, as I've said, their own lives. And when you put it in the context of a credit card—if we're in overdraft, we're paying higher rates, just as you do with your credit card—it didn't take long [to get the message out].* (HealthCo, COO 1)

In meetings, the CFO would "try and put it in laymen's terms" to help others understand how significant debt levels had accumulated: "We had this *great big* MasterCard, and people took significant advantage of it—just like people do in their personal lives" (CFO 2).[18] Executives believed that explaining HealthCo's situation in this way shortened employees' learning curves, which meant that the organization was able to begin reacting to change promptly. The COO explained that "people in the organization—the leadership—even in their personal lives are used to tracking and measuring and having goals in place" (COO 1). HealthCo executives felt that, if organizational members could connect to an idea personally (e.g., thinking of budgeting in terms of personal spending), they were more likely to understand it.

RetailCo executives were focused on adding performance indicators that respondents described as "business-friendly", meaning they were digestible and easy to intuit (VP FP&A 28). Executives described being motivated by the frustration that measuring performance is "not always as clear cut as we would like it to be, and financial performance is always a lagging indicator" (VP Operations 25). The solution was to implement a collection of "real-time leading

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[18] Every time the CFO referred to HealthCo's "great big MasterCard", she stretched her arms out as wide as possible to evoke the image of a credit card that was larger than life.

indicators and operational key performance indicators" to help manage decline (VP Operations 25). Respondents gave examples of operational (e.g., number of redesigned stores) and financial (e.g., average selling price, basket size, gross profit return on inventory, which differ from other retailers that rely on sales per square foot) indicators. Executives explained that basing metrics on sales per square foot—the most commonly used metric by retailers—did not have the necessary intuitive appeal for use with employees and prevented them from fully understanding RetailCo's decline. The VP and Controller reflected on the changes to RetailCo's use of metrics:

> *As a company, we haven't been KPI-heavy until recently. We've really started to put more focus on it.... We don't really look at some of the more traditional metrics on a regular basis [because], when a company is in financial distress, it puts a lot more focus on the working capital and cash generation. As a result, the metrics are kind of following that—like GPROI [gross profit return on inventory].* (RetailCo, VP & Controller 27)

The indicators were implemented to help executives become aware of performance problems earlier than financial results would allow.

Faced with discontinuous and unpredictable onset of decline, the digestible metrics implemented at AutoCo, HealthCo, and RetailCo helped establish a clear understanding of the challenges faced and need for cautious behaviour—not just by accountants but by employees across the organizations. Recall that organizational members are expected to define discontinuous change as a threat (Zammuto & Cameron, 1982) and also to feel a loss of control and believe further performance losses are likely (Chattopadhyay, et al., 2001). In such circumstances, fast ways to communicate key ideas to members reduce the shock and uncertainty associated with discontinuous change, thereby reducing perceptions of threat. Vivid indicators like the ones described help make the realities of decline clear and, as one respondent said pointedly, "put it in a way that people can digest" (AutoCo, CEO 10), thereby restoring organizational members' sense of control.

2.4.1.4 *Implementing organization-wide accountability*

The third characteristic common to organizations facing discontinuous and unpredictable change is the heightened level of accountability instituted to manage decline. Mobilized in different ways within the organizations, respondents' references to accountability were pervasive as they described how their respective organization managed decline.

AutoCo recognized that improving the accuracy and sharing of information was only part of the solution; employees also needed to be held accountable. The executives envisioned and implemented "Daily Accountability" meetings in which managers and employees united in the "Accountability Room"—a room dedicated to displaying large-scale performance scoreboards—every morning at nine o'clock to review prior day performance (Controller 11).

> *We had to hold each other accountable, we had to have measurements, we had to show achievement of the measurements, and if there are roadblocks to achieving those, we need to know about those so we can remove them. That's our job as managers; we are barrier removers.* (AutoCo, Financial Analyst 9)

Early on, the CEO realized that, to garner the most benefit, attendance had to be mandatory; otherwise, there was no way to hold people accountable. A respondent confirmed this directly: "You had to bring a death certificate if you weren't at that meeting" (Financial Analyst 9). Everyone was required to attend so that everyone knew AutoCo's prior day and week-to-date performance, and everyone would be able to invoke accountability.

Managing decline at AutoCo meant "getting back to the theory of being data driven" (Financial Analyst 9). Sharing performance results at "Daily Accountability" meetings gave organizational members the necessary information to invoke accountability, which became important to ensuring spending did not exceed the budget, production was efficient, and other goals were met. The CEO described, "I think that style—of giving people the numbers and the data and then giving them some time to go through it and then challenging them on it and just

being fully accountable and transparent—is crucial." During interviews, respondents continually

brought the focus back to accountability as a key element in the management of AutoCo's

decline. The pervasive and visual way of holding employees accountable was in stark contrast to

the "cloak and dagger" (Controller 11) approach prior to AutoCo's decline: "Accountability is

huge. If people don't know what they're accountable for, they probably don't know what they're

supposed to do in a day" (CEO 10).

References to accountability were also pervasive in the narratives of respondents at

HealthCo but were operationalized in more varied ways. For example, a respondent made

repeated references to "being accountable", not only as an employee of HealthCo and to her

team, but also as a taxpayer and a patient—none of which made it okay to waste money (Program

Director 4). One major change concerning the adoption of accountability was that HealthCo

included more parties in the process: executives, doctors, nurses, employees, government, and

patients.[19] The COO referred to accounting as "the backbone" of accountability such that, by

being provided with information, anyone would be able to tell whether HealthCo was meeting

performance targets. And, indeed, with this increase in information sharing, employees right

down to the front lines held the executive team accountable. The COO described:

> *When we go and talk to the staff around the hospital—even the [union] departments,*
> *etcetera—they want to know how we're doing against the debt. They want to know it's*
> *being paid off, and when it's gone, they're going to want to know what we are going to*
> *spend the money on.* (HealthCo, COO 1)

Pairing directors with financial analysts and enacting a performance management team, both of

which were initiated to support HealthCo's cleansing process, helped ensure the necessary

knowledge was in place so that it would be fair to hold directors accountable.

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[19] HealthCo recruited previous patients to advise the organization of their personal experiences. These advisors were integrated into various departments and programs with the mandate to hold HealthCo accountable to higher and continually improving performance.

Respondents described various ways in which HealthCo had updated and introduced new accountability practices. It was common for respondents to refer to "red", "yellow" or "green" in describing the status of a performance target. Additionally, performance agreements were instituted with all managers and, more recently, with employees outside of management to hold organizational members accountable. With no link to a bonus of any kind, the agreements with managers were instituted to ensure targets were met whereas the agreements instituted with non-managers were focused on refining processes and learning new skills and capabilities.

Consistent with the emergent discontinuous and unpredictable pattern of change affecting RetailCo, the adoption of accountability also appeared to be emergent. On the one hand, the VP Operations asserted, "What we are really big on is driving accountability, accountability across the board" and showed me one of the organization's "pledges" for a transformation initiative. On the back of the boardroom door was a large poster board of priorities for a particular initiative (e.g., converting single appliance purchases into bundles) and related performance standards with staff signatures all over it signifying their commitment. The VP Operations explained:

> *This forges the team, brings people together, where people not only feel pride in what they accomplish but also know that they are doing this for the team. They're not just doing it for the corporation; they are doing it for the other people in the room who also have a vested interest in making [RetailCo] successful.* (RetailCo, VP Operations 25)

On the other hand, this use of accountability was not familiar to other respondents at RetailCo who instead highlighted other ways they felt accountability had changed to support the management of decline. For example, category teams meet weekly to present progress and results to key executives (VP FP&A 28). The CEO also records a quarterly town-hall video summarizing performance plans/progress and shares it with all segments/stores so everyone remains informed and understands what they are accountable for (VP Communications 26). It was also mentioned that compensation had been modified to support RetailCo's transformation

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plan by including measures linked to specific areas of responsibility and also to organization-wide performance (VP & Controller 27). Explaining the importance of accountability at RetailCo, the VP Operations suggested, "Someone needs to be there that establishes the path, the roadmap, and then hold people accountable…. We may lose some battles, but we are going to win the war, and we've got to keep fighting." My observation that there appeared to be neither a consistent approach nor buy-in across the organization suggests again that RetailCo's adoption of accountability may be in an earlier stage.

Recall that the typology expects organizational members to define discontinuous and unpredictable change as a threat and, therefore, to conserve resources (including increased accountability pressure) (Staw, et al., 1981). Though the threat-rigidity thesis suggests accountability pressures will focus on a concern for efficiency, organizational members at AutoCo, HealthCo, and RetailCo described a much broader role for accountability. Decline leads organizational members into unfamiliar circumstances with limited ability to rely on past experience. Furthermore, organizations in decline, particularly when caused by sudden change, are in very fragile states and often on the verge of failure. Since any move could be an organization's last, respondents felt that the varied operationalizations of accountability were critical to the management of decline by ensuring resources are spent wisely and organizational members follow through on intended plans. This observation counters the reduced information processing and increased centralization expected in threat-rigidity; instead, I observe greater sharing of information and control. When organizations face discontinuous change, greater sharing of information and control permits prudent oversight at a time when members are challenged by an inability to plan and, consequently, must employ reactive and experimental coping tactics.

2.4.1.5 Summary

Leading up to decline, AutoCo and HealthCo received no early or predictable signals—at least not ones management recognized and took seriously. RetailCo's decline arose gradually in the beginning; however, members received no predictable signals of the discontinuous and unpredictable pattern of change experienced more recently. The discontinuity of change meant these organizations' members became aware of decline quickly and were required to employ reactive or experimental coping tactics.[20] In fact, all of the mobilizations of accounting were deployed in reaction to decline, and many exhibit experimental qualities. Respondents appeared to define the jolting change as a threat and, as a result, were focused on the gravity of their organization's situation, spoke with concern, and demonstrated a need to manoeuvre cautiously.

Executives at all three organizations initiated a review of their accounting systems and reports upon becoming aware of decline. Once this initial cleansing process enabled executives to become comfortable with the numbers, they adopted a broader approach to managing decline in which they engaged organizational members more widely, particularly through the use of accounting. Organization members used accounting to make sense of the past, developed digestible metrics intended to reach employees at all levels, and instituted various relationships and mechanisms of accountability to support engagement with and monitoring of decline. These organizations mobilized management accounting in ways that are more easily understood by employees organization-wide, which reduces the effects of threat-rigidity. AutoCo, HealthCo, and RetailCo were required to act quickly—even though discontinuous change prevents organizational members from relying exclusively on past experience and affords little time to plan a careful response—and management accounting enabled them to do so. Respondents at

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[20] I imply "quickly" compared to organizations facing continuous change that are at risk of slowly developed awareness due to the gradual onset of decline. Admittedly, "noticing quickly" should be reserved for organizations that perceive the environmental shift quickly enough that they are able to make preventative changes to avoid decline.

HealthCo and AutoCo in particular felt that the changes to and mobilization of various management accounting tools and practices were critical to the management of decline.

2.4.2   Continuous and predictable environmental change

As indicated in the case introductions in Section 2.3.4, MiningCo, AgriCo, and MediaCo all face decline due to a continuous and predictable change in their environment.

Consistent with this classification, MiningCo, AgriCo, and MediaCo members appeared to be less aware of their decline. I emphasize "less" awareness because respondents did highlight significant performance challenges when they described their organizations' circumstances. Respondents at these organizations exhibited no significant concerns or heightened emotions with regard to decline but instead put forth a "business as usual" feeling. For example, respondents at MiningCo explained, "We need a fixed pattern of habits because the efficiencies are coming from that" (CEO 15) and also suggested, "You're really at the mercy of the market" (Finance Manager 12). AgriCo shared similar feelings as one respondent made repeated references to the organization's "wait-and-see-type attitude" (Finance Manager 18), and another stressed that "the fundamentals of the business didn't change" (SVP Operations 19). In alignment with the expectation that continuous and predictable change is defined as an opportunity, MediaCo respondents, in particular, made frequent references to this effect. For example, the CEO suggested that identifying "growth opportunities [is] a big imperative for [MediaCo], and, using the asset base we've got to think through those opportunities." Many comments, from MiningCo and AgriCo in particular, reflected the inactive coping tactics expected in the typology, which translated to these organizations' inactive use of accounting.[21]

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[21] Reflecting the predictability aspect of continuous change in the typology, respondents described instances in which proactive coping tactics were used (especially at MediaCo), but because they do not implicate these organizations' use of accounting, I do not include them in this study (see Chapter 4 for more details).

Unlike organizations that face discontinuous and unpredictable change, members of organizations facing continuous and predictable change do not mobilize management accounting to manage decline. In the next sections, I describe these organizations' non-reliance on accounting and discuss reasons why they do not mobilize accounting during decline.

2.4.2.1 *Organizations facing continuous and predictable change do not mobilize accounting*

Facing continuous and predictable change, Zammuto and Cameron expect coping tactics to be inactive due to less awareness. Following this expectation, respondents at MiningCo and AgriCo described a very passive role for accounting during decline. MiningCo's CEO identified the utilization ratio (i.e., targeting 100 percent asset utilization) as a key metric, and AgriCo's FP&A Manager pointed to econometric modeling used to garner a picture of the long-term outlook, but these tools were not specific to decline; they are used all of the time. When I pushed further and tried to get respondents to describe the tools or analysis they might employ to manage decline, or the changes to accounting brought on by decline, it was common to get responses like, "Nothing. I just do the same thing I always do" (MiningCo, Accounting Manager 14) or "I wouldn't say that AgriCo has great tools" (AgriCo, Finance Manager 18).[22]

Respondents at MediaCo also contend their use of accounting has not changed. They described a range of decisions (e.g., location of free publications) driven by considerations of incremental revenues compared to costs, but these calculations and analyses had always been performed and were not new during decline. When I asked respondents if any new metrics had been adopted or if any existing metrics had changed, respondents suggested that what mattered had changed slightly, but the metrics themselves had not. At the end of an interview, a

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[22] At AgriCo, respondents spoke about plans to review their cost structures, suspected that their budgeting processes would change to a top-down approach, and expected that management would soon set performance targets. At the time of interviews, none of these changes had actually taken place; they were just possibilities for the future. Executives explained that they did not want to set specific approaches and dollar targets and risk stifling innovative ideas (SVP Operations 19, VP Operations 20).

respondent deliberated openly that perhaps MediaCo was not mobilizing internal reporting to the fullest: "Not every company drives by the numbers. And you've got to kind of recognize that. For us, would it be a good thing to shift our focus to be a little bit more numbers driven? I'd say probably yes" (Segment VP & CFO 22).

2.4.2.2 *Questioning the truth and value of accounting*

A common theme across interviews with organizational members at MiningCo, AgriCo, and MediaCo—which explains their unwillingness to engage with and rely on accounting to manage decline—is that none felt that accounting provided truthful accounts or valuable information. For example—and perhaps unsurprisingly given AgriCo's "wait-and-see" attitude and sparing use of accounting—key executives felt that accounting did not add much value to them (AgriCo, SVP Operations 19, VP Operations 20). They criticized the accounting function for being "too historical" and "lacking in good financial analysis". Similar to AgriCo, the reason MiningCo's executives did not embrace accounting information during decline was due to a lack of faith in the numbers. The Production Manager described:

> *When you run everything on a spreadsheet, numbers are not lying. Period. But numbers, they don't have souls. You don't understand what under that number really is. So the decision made based on a spreadsheet turns out being more wrong than right.... Even if I have this tool, I don't want to use it.... Numbers are numbers; everybody interprets them in a different way.* (MiningCo, Production Manager 13)

In fact, MiningCo did not even appear interested in having accounting become a shared language since it sought to replace employees through automation. When the VP Operations compared AgriCo to other companies and the range of "things" the organization could track, he cautioned of the risk that AgriCo could "lose [its] soul" (AgriCo, VP Operations 19).

One exception is that MiningCo and AgriCo implemented large-scale visual performance scoreboards similar to those displayed in AutoCo's "Accountability Room". This observation aligns with an expectation in Zammuto and Cameron's typology not previously described in

which organizational members facing decreasing niche size are expected to focus on efficiency

(see "outcome emphasis" in Appendix 2A). Compared to AutoCo, the extent of adoption and

actual use of these scoreboards was limited at MiningCo and AgriCo. They were not featured in

high traffic areas, updated as frequently or used on a regular basis, or connected to accountability

pressures. At MiningCo, the scoreboards had such limited impact that only one respondent

mentioned them incidentally. The fact that MiningCo and AgriCo members did not believe in

their accounting systems and reports and had not engaged in a cleansing process explains their

lack of use of these scoreboards, which is why I do not highlight this observation as an example

of "using" accounting to manage decline.

Skepticism towards accounting was no different at MediaCo. The CEO sought to explain

why accounting was not actively mobilized:

> *The danger in financial or management reporting is you can get—there's always a story behind the numbers, and it's actually determining the accurate story behind the numbers and not getting fooled by what might appear to be, for example, good results when, in fact, what's going on underlying the numbers is not as positive.* (MediaCo, CEO 21)

He elaborated that "there's a very substantial role for accounting—whether it's financial or

management reporting—to play in development of the thinking around the future", but concerns

prevented him from relying on accounting. The hesitancy to rely on accounting was

demonstrated through the use of budgeting. Noting that the advertising revenue forecast was

incredibly difficult to get right, MediaCo executives found themselves maintaining multiple

budgets and described the entire process as "schizophrenic" (Corporate EVP & CFO 23). The

Corporate EVP and CFO did highlight one benefit to MediaCo's planning and budgeting during

decline—the use of a "rip cord" (i.e., knowing when to abandon a course of action)—which

reflects the proactive coping tactics expected in the typology.[23] All respondents suggested that there was more focus on revenue since it was dissipating quickly and that, "at the end of the day, you've got to bring it back to return on capital employed and ability to generate cash off investment" (Corporate EVP & CFO 23). However, they assured me that this had always been the case.

2.4.2.3 Summary

Compared to organizations facing a discontinuous and unpredictable pattern of change, decline for these organizations arose gradually and predictably. Owing to the continuous nature of change, respondents at MiningCo, AgriCo, and MediaCo were more positive in accounts of their organizations' circumstances. Organizational members defined decline as an opportunity and made references suggesting they felt in control and believed performance improvements were likely. I show that these organizational members questioned the truth and value of their management accounting practices and that, as a result, organizational members were not driven to mobilize management accounting to manage decline. These organizations' non-reliance on accounting cannot be explained by a lack of awareness of decline, because organizational members themselves highlighted the realities of decline early in their cataloguing of challenges faced by their organization.

2.5   Discussion and Conclusion

I carried out a cross-sectional field study that examined six organizations facing decline due to environmental change. Faced with discontinuous and unpredictable change, AutoCo and HealthCo actively mobilized management accounting to manage decline. RetailCo, faced with

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[23] The Corporate EVP and CFO expressed, "These are the parameters which I am going to set that, if I get over these hurdles, I'll keep going. If I fall below these hurdles, I'm going to bail out." Motivated by this explanation (and to confirm again), I responded with, "Oh, so have the indicators changed over time?" The respondent still insisted, "No, I don't think so…. The fundamental metrics I don't think have" (Corporate EVP & CFO 23).

continuous and predictable change in early years—after which the pattern of change became discontinuous and unpredictable—demonstrated a move towards mobilizing accounting in recent years. In contrast, faced with continuous and predictable change, MiningCo, AgriCo, and MediaCo did not mobilize management accounting to manage decline.

Using Zammuto and Cameron's typology to analyze my six organizations, I offer a theory-based explanation for why some organizations mobilize accounting during decline while others do not. Organizations facing discontinuous and unpredictable environmental change mobilized management accounting. They engaged in comprehensive processes to review and "clean" their accounting numbers and reports. Once organizational members established an understanding of and confidence in their accounting—that is, once they could use accounting to tell a story about organizational decline—they then actively mobilized accounting as part of their attempt to manage decline. In contrast, organizations in decline due to continuous and predictable environmental change had serious concerns about the truth and value of their management accounting practices. As a result, these organizations made limited or no changes to their use of management accounting practices. Though it would seem possible that the gradual onset of decline was imperceptible to organizational members and that this explains why they did not actively use accounting, respondents not only readily acknowledged the significant challenges faced by their organizations but also clearly pointed to their disbelief in the truth and value of accounting to support decision making during decline.

Among the organizations that mobilized accounting during decline, I identify three common uses of accounting that organizational members described as helpful ways to manage decline. Consistent with being motivated by perceptions of threat and more tenuous existence of these organizations, organizational members reacted by (1) using accounting to help them

understand precisely how and where performance declined, (2) adopting or creating "digestible" measures to ensure that organizational members clearly understood the realities of decline, and (3) implementing accountability across the organization to support careful engagement with and monitoring of decline. These uses of accounting relate to Burchell, Clubb, Hopwood, Hughes, and Nahapiet's (1980) early theorizations on the function of accounting when objectives are certain (i.e., to recover) but the cause and effect of actions remain uncertain (i.e., how to recover). The authors suggest that, as a decision support system, the role of accounting is either a "learning machine" to conduct ad hoc analyses and what-if models or an "answer machine" to impose rationality and feelings of certainty. For the organizations that mobilized accounting in my study, the observed role of accounting generally aligns with Burchell et al.'s theorizations.

These research findings imply that, when decline is discontinuous, the shock drives organizational members to first convince themselves of the truth and accuracy of their accounting information and then to react by using this information in novel ways to manage decline. Further, my research findings imply that, without any significant discontinuity at the onset of decline, organizational members are not driven to mobilize management accounting to manage decline. My research responds to calls to investigate the use of accounting in decline (Bozeman, 2010; Hopwood, 2009; Van der Stede, 2011). Of interest to practitioners, my research identifies uses of accounting that are low-cost and simple to implement, which are favourable given the tight timelines and limited resources associated with decline.

I also contribute to a long line of research that seeks to understand whether decline leads to rigidity or instead stimulates organizational action and innovation (e.g., Barker & Mone, 1998; McKinley, et al., 2014; Mone, et al., 1998). Recall that, when organizations face a threat such as decline, the threat-rigidity thesis suggests increased centralization, reduced information

processing, and conservation of resources, which leads to rigidity such that organizations rely on learned routines and past behaviours (Staw, et al., 1981). Zammuto and Cameron's typology indicates that organizational members will perceive discontinuous change as a threat. Counter to the predictions of much decline and threat-rigidity literature, the organizations facing discontinuous change in this research mobilized accounting and, in doing so, improved their processing and use of information as well as their sharing of control. By using accounting to understand their organization's past, organizational members learned that their past behaviours and routines were not safe to rely on during decline. This finding suggests that, when decline is perceived as threatening, management accounting is a tool through which organizational members are able to minimize or avoid rigidity.

In sum, a cross-sectional field study provided the opportunity to capitalize on depth of analysis while also offering breadth for comparison across organizations (Lillis & Mundy, 2005). I find that management accounting fills an important decision influencing and facilitating role at a time when organizations need information for decision making but that this varies according to the pattern of the environmental change that led to organizational decline.

Table 2.1 – Steps used to identify research sites

Step 1 – Identify possible organizations

− Review major and local newspapers for organizations that signal symptoms of decline.
− Possible signals include: increasing competition, increasing supply, decreasing demand, decreasing market share, decreasing revenues, increasing costs, decreasing margins, decreasing cash flows, reductions in funding or other restricted resources (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987).
− Retrenchment initiatives (e.g., layoffs, business unit/segment divestiture) can also signal decline but must be interpreted with caution since organizations that are performing well also use retrenchment (D'Aveni, 1989; Hoffi-Hofstetter & Mannheim, 1999). Decline must be involuntary and unintended (versus a strategic choice to downsize) (McKinley, et al., 2014).

Step 2 – Analyze financial situation

− Analyze key ratios and year-over-year changes to confirm the occurrence of organizational decline.
− Possible measures include:
    o Profitability ratios such as ROA, ROE and ROI (decreasing or net loss) must be interpreted with caution since they can be manipulated by altering the denominator (e.g., asset retrenchment makes performance appear better) (Audia & Greve, 2006; Trahms, et al., 2013).
    o Revenue (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987) and net income normalized by GNP (Bruton, Oviatt, & White, 1994).
    o Market ratios such as decreases to EPS (Bolton, 1993) or unmet investor expectations (Morrow, Sirmon, Hitt, & Holcomb, 2007).
    o Liquidity ratios such as current ratio and working capital must be interpreted with caution since they can be manipulated through asset retrenchment (Barker, Patterson, & Mueller, 2001).
    o Debt ratios such as unused borrowing capacity (equity/debt) (D'Aveni, 1989).
− Measures should have a two-year declining trend (Barker & Mone, 1994; Chen & Hambrick, 2012; McKinley, et al., 2014), and when the decline is longer lasting, the years need not necessarily be consecutive (Wiseman & Bromiley, 1991).
− Extent of decline shown in these measures also varies, ranging from absolute levels (i.e., loss) to a 5% decrease in one year or 20% decrease over three years.

Step 3 – Review other reports

− Review internal and external reports (e.g., quarterly/annual reports, MD&A) to understand the organization's circumstances and confirm recognition of decline.
− Possible signals include:
    o Hiring transformation officers
    o Major restructuring initiatives such as layoffs (ranging from 30 to 60% of employees) or other curtailments (e.g., divestitures of stores, business units/segments)
    o Discussion of other challenges and pressures

Step 4 – Confirm diagnosis via preliminary interview

− Arrange for a preliminary interview (by phone or face to face) to collect an executive's perceptions of his or her organization's performance and verify understanding attained in Steps 2 and 3 (similar approach used in other research; e.g., Hoffi-Hofstetter & Mannheim, 1999).

Table 2.2 – Interview and observation details

#	Job position	Date	Length (minutes)
HealthCo			
1	Chief Operating Officer (COO)	2/22/2013	60
2	Chief Financial Officer (CFO)	3/25/2013	80
(1)	COO	4/2/2013	75
3	Performance Management Director (PM Director)	4/26/2013	65
4	Program Director	5/17/2013	35
5	Program Director	5/28/2013	40
6	Program Director	6/10/2013	55
7	Board Director	6/13/2013	50
(1)	COO	7/16/2013	30
8	CEO, Regional Health Authority	7/30/2013	70
--	Observation: Self-Guided Tour of Facilities	N/A	N/A
AutoCo			
9	Financial Analyst (initially a Viability Consultant)	3/14/2013	45
10	Chief Executive Officer (CEO)	4/22/2013	60
--	Observation: Tour of Production Plant	4/22/2013	30
--	Observation: Daily Accountability Meeting	5/23/2013	50
11	Controller	5/23/2013	85
(9)	Financial Analyst	5/23/2013	45
MiningCo			
12	Finance Manager	7/11/2013	20
(12)	Finance Manager	8/9/2013	45
13	Production Manager	8/9/2013	40
--	Observation: Tour of Production Plant	8/9/2013	25
14	Accounting Manager	8/12/2013	25
15	Chief Executive Officer (CEO)	8/12/2013	35

	AgriCo		
16	Strategic Business Unit Planning Manager (SBU Planning Manager)	6/15/2013	30
(16)	SBU Planning Manager	8/15/2013	45
17	Financial Planning and Analysis Manager (FP&A Manager)	8/15/2013	65
18	Finance Manager	8/15/2013	30
--	Observation: Tour of Headquarters	8/15/2013	15
19 20	Senior Vice President Operations (SVP Operations) Vice President Operations (VP Operations)	8/16/2013	60
(20)	VP Operations	8/16/2013	45
(16)	SBU Planning Manager	8/16/2013	60
	MediaCo		
21	Chief Executive Officer (CEO)	6/5/2013	20
(21)	CEO	7/3/2013	75
22	Segment Vice President and Chief Financial Officer (Segment VP & CFO)	10/21/2013	55
23	Corporate Executive Vice President and Chief Financial Officer (Corporate EVP & CFO)	10/22/2013	45
	RetailCo		
24	Senior Strategy Manager	6/5/2013	20
25	Vice President Operations (VP Operations)	4/21/2013	75
26	Vice President Communications (VP Communications)	6/19/2014	35
27 28	Vice President and Controller (VP & Controller) Vice President Financial Planning and Analysis (VP FP&A)	6/20/2014	55
--	Observation: Self-Guided Tour of Various Retail Formats	N/A	N/A

Note: Interview numbers in brackets indicate an interview held with a repeat participant.

Table 2.3 – Details of research sites

Organization[a]	Organization type	Industry	Organization size[b]
AutoCo	Operating subsidiary of a public company listed on the Korea Exchange	Auto Parts and Equipment	> $100 M revenue ~ 500 employees
HealthCo	Public sector company	Healthcare Facilities	> $300 M revenue ~ 2,500 employees
RetailCo	Public company listed on the Toronto Stock Exchange	Department Stores	> $4,500 M revenue ~ 30,000 employees
MiningCo	Operating subsidiary of a public company listed on the Swedish Exchange	Metal and Mineral Mining Machinery and Equipment	> $100 M revenue ~ 120 employees
AgriCo	Operating subsidiary of a public company listed on the New York Stock Exchange	Fertilizers and Agricultural Chemicals	> $3,000 M revenue ~ 3,500 employees
MediaCo	Public company listed on the Toronto Stock Exchange	Publishing	> $1,200 M revenue ~ 7,000 employees

Notes:

a. Confidentiality was promised to participating organizations. Pseudonyms have been used to disguise the organizations, and, where necessary, other details have been generalized to minimize the risk of an organization being identified. Further, I do not reference cities or provinces but note that all of the research sites I obtained access to are located in Canada.

b. These are approximate figures before the onset of decline.

Table 2.4 – Evidence of organizational decline

AutoCo	2002–07	2008	2009	2010	2011–13
Revenue as a % of 2007 Revenue	100%	60%	45–50%	60%	85–90%
Growth over Prior Year		(40%)	(21%)	(26%)	46%
Note: According to EBITDA, AutoCo was ranked in the bottom 10% of AutoParent's businesses.					

HealthCo	2005	2006	2007	2008	2009	2010
Surplus / (Deficit) as a % of Revenue*	0%	(3%)	(4%)	(7%)	(6%)	(2%)
Growth over Prior Year		580%	49%	121%	(10%)	(73%)
Working Capital as a % of Total Assets	7%	(14%)	(16%)	(14%)	(19%)	(20%)
Current Ratio	1.28	0.61	0.54	0.64	0.54	0.51
Cost / Weighted Case, Increase over Prior Year		9%	12%	12%	3%	(10%)
Note: Where indicated (*), the impact of one-time funding is removed to show full extent of decline.						

RetailCo	2009	2010	2011	2012	2013	2014
Total Revenue as a % of 2009 Revenue	100%	91%	86%	81%	76%	70%
Growth over Prior Year	(2%)	(9%)	(5%)	(6%)	(6%)	(8%)
Gross Profit as a % of Revenue	48%	48%	39%	37%	37%	36%
Growth over Prior Year		(9%)	(22%)	(13%)	(5%)	(10%)
Return on Assets	9%	7%	4%	(2%)	4%	18%
Working Capital as a % of Total Assets	35%	33%	18%	17%	16%	24%
Same Store Sales Growth	(7%)	(4%)	(8%)	(6%)	(3%)	(7%)
Notes: A decreasing trend in total assets disguises a more significant decreasing ROA trend. Same-store sales is an industry-specific metric that removes store openings/closures so that sales growth (decreases) in existing stores is observed and not mistaken for opening (closing) new stores.						

MiningCo	2010-11	2012	2013	2014
Revenue as a % of 2011 Revenue	100%	75%	60%	60%
Growth over Prior Year		(25%)	(20%)	(0%)
Note: A respondent noted that, while 2013 revenues were down 40%, the bottom line was actually off 60%.				

AgriCo	2011	2012	2013	2014
Total Revenue as a % of 2011 Revenue	100%	95%	67%	
Growth over Prior Year		(5%)	(30%)	(17%)
Gross Profit as a % of Revenue	46%	47%	27%	
Growth over Prior Year		(2%)	(60%)	(41%)
ResourceX Price as a % of 2011 Price	100%	89%	70%	60%
Increase over Prior Year	34%	(11%)	(22%)	(14%)
Note: Though ResourceX benefited from a price increase in 2011, the price in 2009 was 300% of current price.				

MediaCo	2008	2009	2010	2011	2012	2013
Total Revenue as a % of 2008 Revenue	100%	95%	97%	101%	92%	85%
Growth over Prior Year	(1%)	(5%)	2%	4 %	(9%)	(7%)
Net Income as a % of Revenue	(12%)	2%	14%	14%	6%	(2%)
Growth over Prior Year	(279%)	120%	490%	4%	(62%)	(134%)
Return on Assets	(10%)	2%	13%	14%	6%	(2%)
Working Capital as a % of Total Assets	12%	10%	8%	(3%)	10%	9%
Note: A decreasing trend in total assets disguises a more significant decreasing ROA trend.						

Note: The financial information presented is limited and at a high level of analysis to maintain the confidentiality of participating organizations. I include only an excerpt of the years and variables analyzed in order to provide evidence of decline. More extensive evidence is available by request.

Figure 2.1 – Zammuto and Cameron's typology of environmental decline

Pattern of Change

Discontinuous/Unpredictable   Continuous/Predictable

	Discontinuous/Unpredictable	Continuous/Predictable
Niche Size	**CONTRACTION**	**EROSION**
Niche Shape	**CATASTROPHE**	**DISSOLUTION**

Type of Change in Niche Configuration
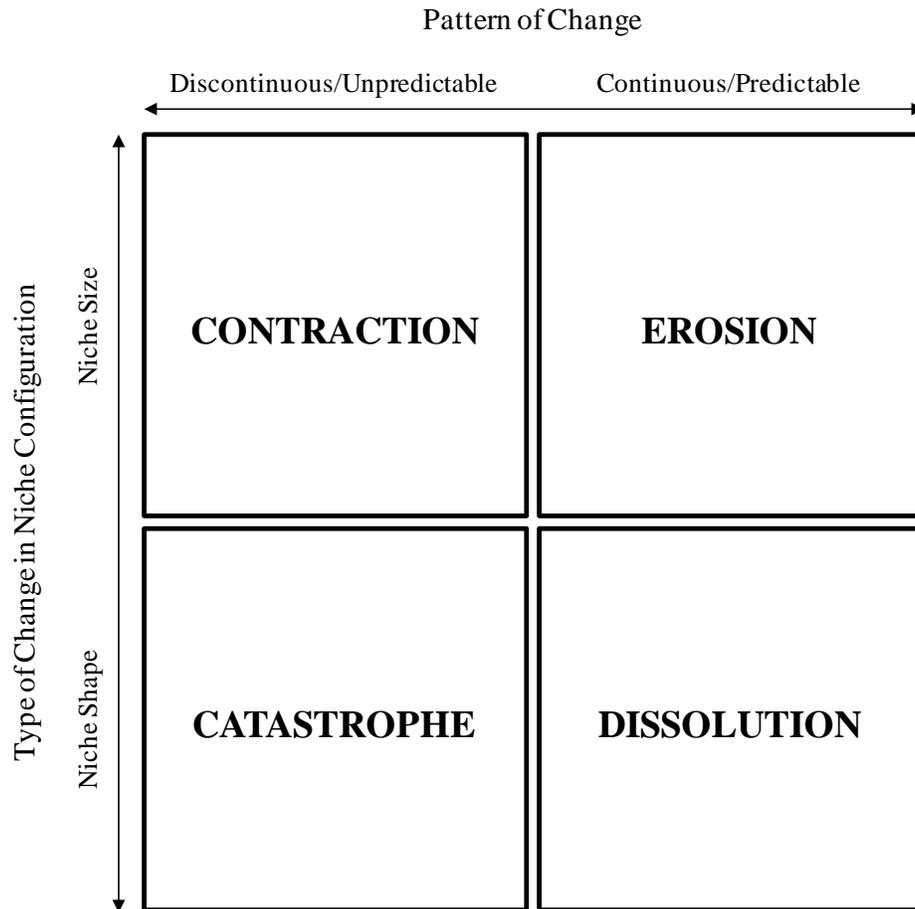
Note: All quadrants in the typology refer to threats to survival and not ultimate outcomes. Hence, I use "catastrophe" in place of "collapse" from Zammuto and Cameron's theorizations. "Collapse" in accounting terms is taken as synonymous with bankruptcy and total failure when, in fact, the quadrant in Zammuto and Cameron's typology is intended to refer to significant organizational change ensuing from a discontinuous/ unpredictable market shift.

Figure 2.2 – Research sites located in the typology of environmental decline

Pattern of Change

Discontinuous/Unpredictable   Continuous/Predictable

Type of Change in Niche Configuration

Niche Size

Niche Shape

AutoCo

MiningCo

AgriCo

RetailCo

HealthCo

MediaCo
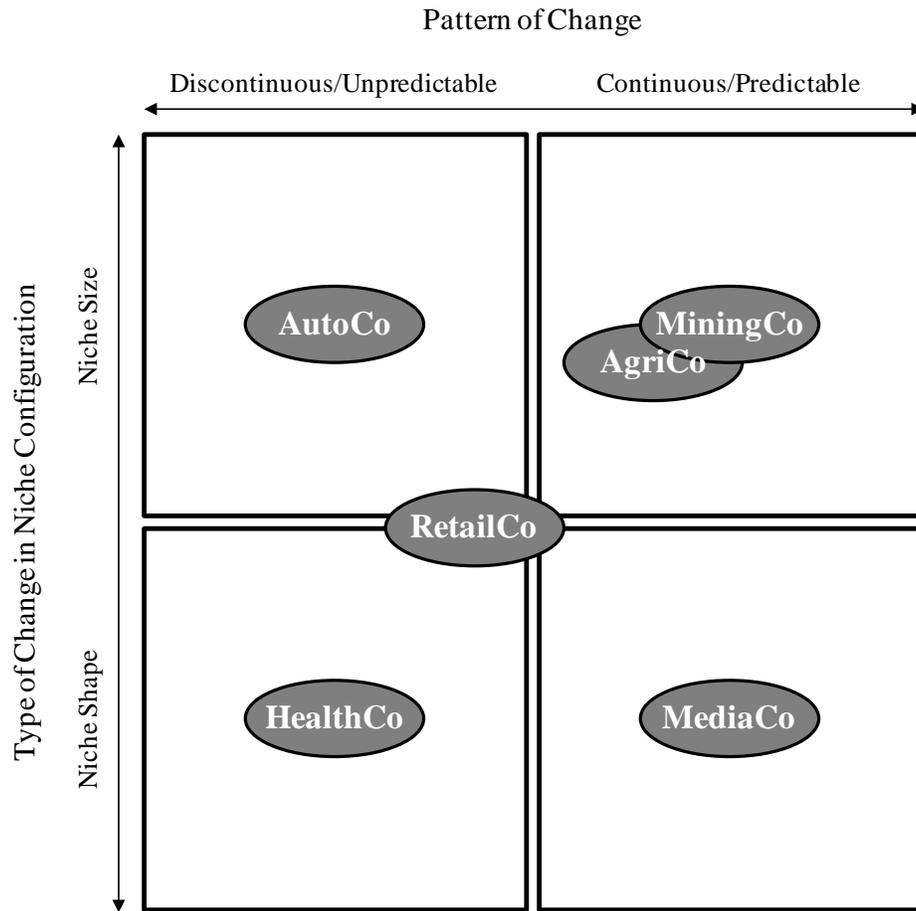
Appendix 2A – Key Terminology

Niche – A resource space defined by productive capacities and resource requirements within which a population of organizations produce similar products/services and compete with one another.

Carrying Capacity – The maximum number of organizations that an environmental niche can sustain, determined by the interaction between available resources, constraints and demand.

Niche Configuration Change – An environmental shift that impacts either the size or shape of the niche.
- **Niche Size** determines the level of performance supported in a niche.
- **Niche Shape** determines the type of performance supported in a niche.

Pattern of Environmental Change – The pattern of change in the external environment.
- **Discontinuous/Unpredictable Change** – Sudden change that deviates significantly from the past.
- **Continuous/Predictable Change** – Slow, gradual change that is consistent with past experience.

Types of Organizational Decline
- **Contraction** results from a discontinuous/unpredictable decrease in niche size.
- **Catastrophe** results from a discontinuous/unpredictable shift in niche shape.
- **Erosion** results from a continuous/predictable decrease in niche size.
- **Dissolution** results from a continuous/predictable shift in niche shape.

Perceptions – How organizational members become aware of decline impacts whether they define the resulting circumstances as an opportunity or a threat. Perceptions refer to both the level/speed of awareness and how decline is defined.

Coping Tactics – Managers' predispositions and coping strategies depend first on awareness but also on whether predictable (unpredictable) onset permitted foresight (or not). Zammuto and Cameron use the label "behavioural tactics" but for ease of exposition I refer to "coping tactics" throughout the chapter.
- **Reactive Tactics** refer to actions taken in response to contraction.
- **Experimental Tactics** refer to trial-and-error actions in response to catastrophe.
- **Inactive Tactics** refer to a passive response (i.e., no action) to erosion.
- **Proactive Tactics** refer to actions taken to prepare for or in anticipation of dissolution.

Outcome Emphasis – Managers are expected to be focused on either efficiency (i.e., achieve more output with less input) when faced with decreasing niche size or effectiveness (i.e., responsive to consumer preferences) when faced with shifting niche shape.

Appendix 2B – Sample Interview Questions

Note: This is a list of sample interview questions. The interview script was customized according to the organization, interviewee's position, and information already collected.

Can you help me understand what you, as a [job position], do at [organization]?
– How does your role fit into the accounting/finance function here?

How does the accounting/finance function work with your organization's decision makers?
– What values or criteria guide the decisions management/executives make?

What is your perception of how [organization] is doing?
– What does this mean for you, your department and the organization as a whole?

In thinking of your organization's recent performance, what changes or challenges have you noticed around the organization?
– Within your department? Within your own role?
– How has accounting been affected by [this change or challenge]?

Considering your organization's performance, how have you been able to understand what is going on?
– How have other organizational members helped you understand what is going on?

Can you reflect on a particular event or moment when you realized your organization's performance was changing drastically? Tell me about this.
– When/how did you/your organization notice? Could it have been avoided?

How has your organization's current state affected the nature of your work?

How do you think your work and your team's work influences decision makers here?
– How do you think others use the information you provide?

As your organization deals with these conditions, have you noticed any changes to:
– The types of tasks you are asked to perform?
– The level of detail you are asked to include in reports?
– The frequency with which you are asked to do certain tasks?

How has communication been affected by your organization's current state?
– Between different parties? Frequency, intensity, topic of focus?

Can you reflect on any recent occasions in which you were surprised by a request or a change in some of the internal reporting you do?

If circumstances are changing so quickly (or are so uncertain), how does management accounting meet your organization's needs?

CHAPTER 3

Accountable Sensemaking and Sensegiving: The Use of Management Accounting during the Decline and Turnaround of a Healthcare Institution

3.1   Introduction

Building on the initial analysis of HealthCo in Chapter 2, this chapter focuses on how management accounting is used in a public sector organization that is experiencing decline and pursuing a performance turnaround. Organizational decline is a substantial and enduring decrease in an organization's resource base that creates very challenging circumstances within which organizational members must make prudent decisions despite limited resources and shortened time horizons (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987). Much of the existing research (e.g., Barker & Duhaime, 1997; McKinley, et al., 2014; Pearce II & Robbins, 1993; Trahms, et al., 2013) has focused on identifying static causes and consequences while ignoring the detail and process of emerging from decline and achieving a turnaround. An important part of this detail and process is how organizations operationalize management accounting during decline and turnaround.

An investigation of the role of management accounting in a public sector organization facing decline and pursuing a performance turnaround is important for two reasons. First, comparing the Canadian public sector to the increasing number of public sector organizations facing extensive performance challenges leading to organizational failure in the US, recent commentators have suggested that the rising cost of public sector services and salaries does not leave Canada's own public sector at any less risk than the US (Blaze Carlson, 2013; Hildebrandt, 2013; Ovsey, 2013). Second, organizations experiencing decline face immense pressure. These

organizations are challenged with low employee morale, increasing conflict, increased employee turnover, loss of financial slack, resistance to change, and reduced credibility in the leadership (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987; Whetten, 1987). These challenges affect organizational members' ability to process and integrate information (e.g., accounting) into effective decision making. Further, researchers have shown that decline often leads to a threat-rigidity effect in organizations resulting in reduced information processing, increased centralization, and reliance on routines (Barker & Mone, 1998; Staw, et al., 1981). Consequently, organizational members may fail to notice, fail to respond, or respond ineffectively to their organization's decline.

I conduct a field study to capture the richness of the context, the complex relationships between organizational members, and the ways in which management accounting was engaged throughout decline and turnaround (Ahrens & Dent, 1998). Specifically, I conduct 16 semi-structured interviews in a healthcare organization called HealthCo that recently experienced decline and managed a performance turnaround. Additionally, an extensive set of secondary documents allow me to reconstruct a case study for HealthCo and then analyze how management accounting is deployed during decline and turnaround. I employ the theoretical perspectives of sensemaking and sensegiving and introduce accountability to these two perspectives in order to explain the management accounting enacted to manage the organization's decline.

The public sector setting is fertile ground for research because of a number of interesting characteristics inherent to it. First, not only do public sector organizations usually not fail, but, taken a step further, it is unlikely for them to fail in the same way as private sector organizations (i.e., bankruptcy filings or takeover as a last resort).[24] Second, what it means to fail—that is, the

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[24] Unlike the private sector, where bankruptcy proceedings and failure are possible outcomes, it is important to consider whether public sector organizations can actually fail—an important risk in research on decline. In his seminal book examining public

measurement, evaluation, and determination of failure—differs between the public and private sectors. Public sector organizations are not tied to a profit bottom-line but are instead assessed according to their provision of a good or service that is socially desirable albeit subject to funding constraints. Third, not only are the performance objectives and outcomes difficult to pin down in the public sector, but they can also be difficult to measure and evaluate. As a general rule, public sector organizations and the customers and communities to which they provide services expect the government to intervene in some way, should an organization become at risk of failure or "death".

My research makes two contributions. First, the HealthCo findings highlight the use of several management accounting practices that were important in managing decline and pursuing turnaround (e.g., year-over-year comparatives, variance analysis, benchmarking). These accounting practices were actively used in sensemaking (i.e., to make sense and understand) to help the new management team create a shared context for how HealthCo ended up in a state of decline. Accounting was also actively used in managements' sensegiving (i.e., to influence other individuals' meanings) to persuade organizational members to become involved in pursuing a performance turnaround and to persuade external stakeholders of the organization's ability to recover. As well, this study adds to an emerging collection of research that examines the use of accounting language in sensemaking and sensegiving (e.g., Heidmann, et al., 2008; Kraus & Strömsten, 2012; Tillmann & Goddard, 2008).

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sector organizations' death and dying, Kaufman (1976) finds that government agencies are almost never abolished and are, for the most part, "immortal". Nevertheless, organizational death in the public sector is not impossible (see for example, Sutton (1987), who examines the process of how both private and public sector organizations transition to death) but infrequent. Joining a list of other municipality bankruptcies, the city of Detroit (Michigan) filed for bankruptcy in 2013 ("Detroit's bankruptcy," 2014); the state of California has experienced a noteworthy number of government bankruptcies including municipalities and healthcare organizations (Wells, 2012); and both the United States Postal Service and Canada Post are currently facing extensive performance scrutiny and restructuring initiatives (Hartung, 2011; Walkdom, 2014).

Second, this research provides an in-depth understanding of accountability as an important adjunct to the theoretical perspectives of sensemaking and sensegiving. Existing research focuses on how sensemaking and sensegiving processes create and influence meaning but does not describe whether or how these intended meanings will be incorporated into organizational decision making and action. Within HealthCo, accountability was observed as a key mechanism through which organizational members worked together to lead their declining organization to turnaround. Although traditional supervisor/subordinate accountability was still present, organizational members at many levels engaged with various financial and nonfinancial indicators during the turnaround in order to hold each other accountable. Accountability disciplined the meanings that were constructed and communicated and provided assurance that these meanings were acted on. Unlike extensive research on external forms of accountability (for a review, see Hayne & Salterio, 2014), accountability inside an organization has not been fully elaborated in research. Accordingly, in addition to making a theoretical contribution by explicating an underexplored but important link between sensemaking/sensegiving and accountability, this research adds to the limited number of field studies that examine the operation of accountability within an organization (e.g., Ahrens, 1996; Johansen, 2008b).

The next section of this chapter reviews prior public sector research including extant research in management accounting and develops the theoretical perspectives I employ in my research. In particular, I focus on approaches to studying organizational decline and turnaround that I then expand to include the intersection of sensemaking and sensegiving with accountability. Section 3.3 describes my approach to data collection and analysis and introduces key elements of the healthcare context. Section 3.4 introduces my case study and describes the onset of HealthCo's decline, in addition to organizational members' efforts to manage decline

and pursue a performance turnaround. In Section 3.5, I employ the theoretical perspectives to analyze the management accounting enacted to manage HealthCo's decline. Finally, Section 3.6 concludes by outlining the contributions of this research.

3.2 Context and Theory Development

3.2.1 *Prior research on public sector and management accounting in healthcare context*

Throughout the 1980s and 1990s, the new public management (NPM) reform movement led to major government restructurings in numerous countries and garnered a significant amount of research attention. Though NPM has influenced Canada's public sector (including healthcare) more slowly than in other countries (e.g., the United Kingdom, New Zealand), it has impacted public administrators and politicians (Marchildon, 2008). Referred to by many as the "corporatization" of the public sector, NPM refers to the introduction of market-based reforms into the public sector with the aim of minimizing the role of government and improving the delivery of public goods and services (De Vries & Nemec, 2013).[25] The doctrines of NPM resulted in significant implications for accounting practices in the public sector (Gendron, Cooper, & Townley, 2001, 2007; Hood, 1995; Kurunmaki, 2004; Neu, Silva, & Ocampo Gomez, 2008). Researchers have noted significant variation in the degree of adoption of NPM as well as in the timing across Canada (De Vries & Nemec, 2013; Glor, 2001; Hood, 1995; see Dunleavy, Margetts, Bastow and Tinkler (2006, Table 1, p. 471) for a summary of the extent of NPM adoption across seven countries).[26] I remain alert to the key research themes and doctrines of

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[25] See Gruening (2001) for a review of the origins of NPM. NPM is described diversely among scholars (e.g., Aucoin, 1990; Pollitt, 1993); refer to Hood (1991, 1995) for a review of NPM reform according to seven general themes.

[26] Not long after Hood's (1991, 1995) widely-cited seminal work, theorists began to suggest NPM was dying or dead (e.g., Dunleavy, Margetts, Bastow, & Tinkler, 2006), perhaps due to its wide range of criticisms (e.g., Hood & Peters, 2004; Humphrey & Miller, 2012; Lapsley, 2009; Parker & Gould, 1999; Tremblay, 2012). Others argue that NPM continues to impact public sector organizations (e.g., Hood & Peters, 2004; Pollitt, 2007) and that even if NPM is losing its thrust, many of its prescriptions have institutionalized (Dunleavy, et al., 2006; Hodges, 2012; Lapsley, 2008, 2010). See De Vries and Nemec (2013) for a recent review of the debate over NPM's status.

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NPM in this study since NPM's impact on accounting practices and the public sector more generally could extend to the use of accounting during a healthcare organization's decline.

There is also an extensive collection of extant research within the healthcare sector to which I remain alert; researchers have examined a wide range of financial and management accounting topics in healthcare settings.[27] Management accounting researchers have investigated capital asset management systems (Marriott, Mellett, & Macniven, 2011), budgeting systems (Wei, 2007), matters related to compensation (Eldenburg & Krishnan, 2008; Evans, Kim, Nagarajan, & Patro, 2010), and physician involvement in the design and implementation of management accounting innovations (e.g., activity-based costing) and their subsequent use of these tools and other accounting information in decision making (Abernethy & Vagnoni, 2004; Eldenburg, 1994; Eldenburg, Soderstrom, Willis, & Wu, 2010). Studies examining issues such as restructuring and cost containment could offer insights for my research. For example, Thibodeau, Evans, Nagarajan, and Whittle (2007) examined the effects of the US government in restructuring the Veterans Health Administration (VHA) and show that changes to the VHA's organizational structure and management control systems led to decreased patient costs and improved quality measures. In addition, hospitals' implementation of various cost-related initiatives has been examined, for example, market-based pricing and costing (Lehtonen, 2007), clinical accounting (Preston, 1992), responsibility accounting (Aidemark, 2001; Lapsley, 1994), and outsourcing (Smith, Morris, & Ezzamel, 2005).[28] Many of these studies are conducted using two large-scale databases on US hospitals, which do not afford the opportunity to examine

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[27] Regarding financial accounting, researchers have examined such topics as earnings management by non-profit hospitals (Eldenburg, Gunny, Hee, & Soderstrom, 2011), governance issues (Brickley & Van Horn, 2002; Brickley, Van Horn, & Wedig, 2010; Eldenburg, Hermalin, Weisbach, & Wosinska, 2004), and the effects of mandatory disclosure (Evans, Yuhchang, Nagarajan, & Shastri, 1997). The influence of hospital ownership (i.e., public and private for-profit, non-profit, and government hospitals) on a range of variables has also received extensive attention (Balakrishnan, Eldenburg, Krishnan, & Soderstrom, 2010; Eldenburg & Krishnan, 2003, 2008; Joshi, Krishnan, & Krishnan, 2010).

[28] See Cardinaels and Soderstrom (2013) for a review of research progress on management accounting and governance in hospitals. This review highlights the "complex world" and significant challenges hospitals must manoeuvre (see, for example, Table 1 where the authors list the competing actors and forces involved in a hospital's institutional environment).

specific details of improvement initiatives or consider the difficult context of organizational decline.

3.2.2 Context of organizational decline and turnaround

Organizational decline is defined as "a condition in which a substantial, absolute decrease in an organization's resource base occurs over a specified period of time...." Further, "whether it results in a positive or negative consequence depends on how it is managed" (Cameron, Kim, et al., 1987, p. 224). This definition, widely cited in research, was developed in a study examining public sector organizations. The ambiguity of referring to an organization's "resource base", as critiqued by some researchers (e.g., Weitzel & Jonsson, 1991), accommodates the imprecise performance measures in the public sector (e.g., nonfinancial measures such as quality, speed, or extent of service provision instead of profit) (Jas & Skelcher, 2005). Researchers have also suggested that it is important to consider the process of decline (Weitzel & Jonsson, 1991) as well as key stakeholders' perceptions of decline since signals of decline are not always clear (Cameron, Kim, et al., 1987; Gautum, et al., 1997; Ponemon & Schick, 1991).

Managing decline is often done in pursuit of organizational turnaround, which is defined as an organization's performance recovery from financial failure and impending collapse (i.e., stabilize operations and restore financial position) (Barker & Duhaime, 1997; Boyne, 2004; Lamberg & Pajunen, 2005). Since minimal attention has been dedicated to turnaround in the public sector, Boyne (2004, 2006) leverages existing private sector research to summarize "3Rs" of turnaround: retrenchment, repositioning, and reorganization. Retrenchment efforts seek efficiencies by reducing an organization's size or scope—for example, by implementing cost efficiencies (e.g., spending cuts, restructuring debt) or asset retrenchment (e.g., divesting poorly

performing assets) or by downsizing organizational size.[29] Repositioning is more entrepreneurial

in nature, refocusing existing activities and competencies to the organization's core strengths

(i.e., "going back to the basics" for markets, customers and products) or considering new

innovations and opportunities for growth. Reorganization, viewed by some as the activities that

support the first two "Rs" (e.g., Schoenberg, et al., 2013), includes any activities that affect an

organization's internal management (e.g., influencing culture, updating planning/management

systems, replacing key executives). Boyne's premise is that public sector organizations that

employ the "3Rs" are more likely to improve performance; however, the precise applicability

and benefits of these turnaround strategies in the public sector are unknown (e.g., public sector

organizations are restricted in their ability to retrench or reposition products/services but might

have more opportunities in the reorganization category).

With a growing collection of studies investigating organizational decline and turnaround,

it is surprising to find that few researchers have sought to examine how management accounting

might facilitate the management of decline or turnaround. There exists some research examining

the use of management accounting during organizational change (see, for example, Hassan,

2005; Soin, et al., 2002). I argue, however, that organizational decline is a unique type of

organizational "change" wherein survival is uncertain and members face significant time

pressures and resource constraints in their decision making and action. Thus, the use of

management accounting during decline warrants focused research attention.

In the private sector, some research investigates the use of accounting in organizations

facing crises—a construct that is closely related to but distinct from decline (McKinley, et al.,

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[29] I note a closely related line of research in the public sector: cutback management is defined as "managing organizational change toward lower levels of resource consumption and organizational activity" (Levine, 1979, p. 180). While some prescriptions for cutback management are likely to be helpful to organizations in decline, Levine (1979) himself questions the applicability of cutback management since it is a survival methodology used not only during decline but also during instances of growth slowdown and zero growth. Recently, Bozeman (2010) criticized the ability of cutback management literature to help public sector organizations in decline.

2014).[30] These studies show that the management accounting and control systems of organizations facing crisis can sometimes provide decision-relevant information (Ezzamel & Bourn, 1990), become tightly centralized (Colignon & Covaleski, 1988; Czarniawska-Joerges, 1988), and tend to focus on planning and resource allocation (Becker, et al., 2015). In the public sector, Aidemark (2001) examines the implementation of two management accounting reforms in a hospital in Europe. The study finds that instituting responsibility accounting created a "disciplining context" (p. 546) that helped remedy financial difficulties whereas instituting an internal market system increased financial difficulties. Though a large number of case studies examine public sector organizations as they endure decline and attempt turnaround, these studies do not include discussions of the use of accounting in their case descriptions and analyses.

3.2.3   *Sensemaking and sensegiving*

As I describe in the Research Methods section, I entered the field with a variety of theoretical lenses at my disposal. Iteratively, I arrived at sensemaking and sensegiving, introduced in this subsection, combined with accountability, introduced in the next subsection, as a theoretical perspective through which to examine my research question. These theories are introduced now for ease of exposition rather than as an indication that they guided my field research ex ante.

The theoretical perspectives of sensemaking and sensegiving are important for the study of organizational decline because decline creates challenging organizational climates that place significant demands on sensemaking and sensegiving processes. How organizational members understand and frame decline will shape the nature and degree of change and, importantly, the organization's future. Sensemaking is a process through which organizational members "make

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[30] A crisis is defined as a "low-probability, high-impact event that threatens the viability of the organization" (Pearson & Clair, 1998, p. 60). Decline and crisis refer to ambiguous situations that threaten organizational survival, and, consequently, many researchers use the terms interchangeably (e.g., Lamberg & Pajunen, 2005; Rosenblatt & Sheaffer, 2001). However, definitions of crises do not refer to the enduring and sustained effects on performance that characterizes decline, the focus of my study.

sense" of ambiguity and uncertainty and create meaning first at an individual level and, eventually, at an organizational level (Weick, 1993, 1995). Formally, sensemaking refers to "ongoing retrospective development of plausible images that rationalize what people are doing" (Weick, Sutcliffe, & Obstfeld, 2005, p. 409). Whereas sensemaking is about how individuals construct meaning, sensegiving is about influencing how individuals attribute meaning (Smerek, 2011). Accordingly, sensegiving is the "process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality" (Gioia & Chittipeddi, 1991, p. 442). Though sensemaking and sensegiving are often used by organizational participants and studied by researchers in crisis-like situations (e.g., Weick, 1988, 1993, 2010), the processes are also valid in everyday circumstances (e.g., Maitlis, 2005). Without sensemaking and sensegiving processes, there is a risk that organizational members will elicit knee-jerk reactions to triggering events, and these spontaneous reactions often prolong or intensify problems (Weick, 2010). Researchers commonly frame discussions of sensemaking and sensegiving according to seven properties described in Table 3.1.

Researchers have made significant progress in understanding sensemaking and sensegiving processes. They have shown that sensemaking and sensegiving processes happen among a wide range of actors, for example, leaders (Maitlis & Lawrence, 2007), directors (McNulty & Pettigrew, 1999), middle managers (Sharma & Good, 2013), employees (Maitlis, 2005), and other stakeholders (e.g., government, customers, unions, communities). Further, studies have shown that such processes can happen in predictable venues such as meetings (Weick, 1995) but also in less predictable ways such as through gossip (Mills, 2010).

Researchers have also documented some of the ways in which sensemaking and sensegiving are enacted through language, narratives, and storytelling (Boudes & Laroche, 2009;

Drori & Ellis, 2011; Rouleau & Balogun, 2011; Weick, 1995, 2010). In fact, language is crucial to sensemaking and sensegiving processes (Cornelissen, 2012; Sonenshein, 2006), and the use of a common language is key to obtaining shared meaning and understanding. The "language of accounting" provides organizations and their members with a means to understand (see, for example, Heidmann, et al., 2008; Kraus & Strömsten, 2012; Tillmann & Goddard, 2008), and yet few researchers have examined this issue.

So far, I have argued that sensemaking and sensegiving can help an organization and its members make sense of the organization's circumstances and past experiences. I have suggested that the language of accounting, in particular, can be a powerful way to facilitate the creation of the narratives and stories that emerge from sensemaking/sensegiving processes. What the theoretical perspectives of sensemaking and sensegiving lack, however, is a way to ensure that the meanings and understandings derived from sensemaking and sensegiving are incorporated into decision making and action.[31] Next, I argue that accountability bridges this disconnect.

3.2.4 *Accountability*

Lerner and Tetlock's (1999, p. 255) commonly cited definition of individual accountability is "the implicit or explicit expectation that one may be called on to justify one's beliefs, feelings, and actions". The process of accountability includes an "accountor", who is accountable for his/her behaviour; an "accountee" with the right to demand an account and question the behaviour; and the opportunity for the accountor to explain his/her actions and for the accountee to pass judgment. The accountor is mindful of his/her actions because of the mere possibility of being held to account (Bovens, 2010; Tetlock, 1985; Willems & Van Dooren, 2011). When

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[31] Research has shown that the mere existence of information does not guarantee that it will be used in organizations to make decisions (Van de Walle & Van Dooren, 2010). Various economic (e.g., efficiency, cost), psychological (e.g., selective perception, interpretation, confirmation bias), and social mechanisms (e.g., power dynamics) suggest possible reasons for non-use (Lerner & Tetlock, 1999; Tetlock, 1985; Van de Walle & Van Dooren, 2010).

accountability is accepted by organizational members and, thus, becomes established in an organization, a number of valuable benefits arise. For example, accountability affects information processing and related decision making by invoking more complex and analytical evaluation strategies, by increasing individuals' awareness of the cognitive strategies deployed in decision making, and by encouraging greater use of data in forming judgments and making decisions (Lerner & Tetlock, 1999; Tetlock, 1985).[32] How accountability might benefit organizations enduring decline and attempting performance turnaround is an emerging topic (see, for example, Rutherford, 2014).

The operationalization of accountability in an organization can be complex. Accountability is present across and within multiple levels of organizations and among various organizational members. An accountability relationship can be intrapersonal, interpersonal with other individuals or groups, between a person and the organization, and beyond the organization's borders. It is generally accepted that subordinates are accountable to their supervisors (i.e., hierarchical accountability), but other possibilities offer potential for greater stakeholder engagement (e.g., horizontal, diagonal, formal, and informal arrangements) (Bovens, 2007; Hardy & Ballis, 2013). Other constituents to whom an individual might feel accountable include: co-workers, peers, suppliers, customers, shareholders, courts, surrounding community, or society (Caker, 2007; Ergodan, Sparrowe, Liden, & Dunegan, 2004; Johansen, 2008b; Ogden, 1997).[33] Of special interest, Cordery, Baskerville, and Porter (2010) investigate the discharge of

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[32] See Table 1 in Lerner and Tetlock (1999) for a review of how accountability attenuates information processing and decision-making biases, thus improving decision making. By way of example, managerial judgment is improved when managers are required to account for their use of the balanced scorecard in performance evaluations (Libby, Salterio, & Webb, 2004).

[33] The web of possible accountability relationships becomes even more complex when one considers the "type" of relationship; for example, Sinclair (1995) identifies political, public, managerial, professional, and personal accountability types whereas Gibbins and Newton (1994) identify social, contractual, and hierarchical relationships. In an organization's web of accountability, organizational participants are likely to face multiple accountability relationships in which the various sources of accountability might not agree, each source of accountability might exert varying degrees of pressure, and the individual's perception of accountability varies as well (Gibbins & Newton, 1994).

"holistic" accountability—defined as upward, downward, and sideways—between a healthcare organization and its stakeholders (e.g., funders, beneficiaries).

In addition to accountability relationships, organizations also have in place devices and tools to invoke accountability, to negotiate and engage with accountability, and to monitor and control organizational performance (Tetlock, 1985). Organizational architecture could include a range of these accountability mechanisms; for example, performance appraisal systems, security/ surveillance systems (e.g., time clocks, internet usage), or accounting systems (Hall & Ferris, 2011). They may be formal or informal, visual or spoken, and quantitative and/or qualitative (Davison, 2007; Davison & Warren, 2009; Hall & Ferris, 2011; Hardy & Ballis, 2013). Furthermore, accountability tools might provide objective or subjective evaluations; concern the process and/or outcome; or be based on financial, procedural, product, or ethical/social details (Bovens, 2007; Johansen, 2010; Siegel-Jacobs & Yates, 1996). Accounting and, in particular, management accounting offer a language for organizational members to talk about accountability.[34] Tetlock (1985, p. 307) suggests that "accountability is a critical rule and norm enforcement mechanism"; management accounting (often regarded as a control mechanism) fulfills this role by ensuring that organizational members' behaviour unfolds according to the organization's prescribed directions.

Accountability inside an organization is important because all accounts (internal and external) originate from within the organization. The intent of these accountability relationships and mechanisms is to affect what and how organizational members think and how this translates into organizational behaviour. I argue that organizations experiencing decline and seeking a

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[34] Examples of management accounting tools that embed accountability include budgets (Kluvers, 2001), performance management systems (Libby, et al., 2004; Melo, Sarrico, & Radnor, 2010), and activity-based costing systems (Baird, 2007). Otherwise, financial statements are the most widely recognized form of account. Since my intent is to focus on the use of accountability *inside* an organization, I set these "external" mechanisms aside (see Hayne and Salterio (2014) for a review).

performance turnaround will benefit from embedding a wide range of accountability relationships and mechanisms. Without an active web of accountability in place, an organization is at risk of its members making decisions according to "least effort" solutions (i.e., solutions that are likely to gain favour with an accountee but may not be the best course of action) (Tetlock, 1985, p. 310). Admittedly, every organization has some level of accountability in place, but I argue that greater use of accountability is critical to an organization's management of decline and pursuit of turnaround. Thus, if accountability becomes embedded in the organization through overlapping relationships and mechanisms, individuals will work harder, take on more responsibility, and improve the quality of their information processing and decision making on the basis that they face a higher chance of being evaluated or held to account (Hall & Ferris, 2011).[35] Field researchers (e.g., Ahrens, 1996; Johansen, 2008a, 2008b; Johansen, 2010) have begun to untangle and understand what is sometimes referred to as a complex "web" of accountability in organizations (i.e., Frink & Klimoski, 2004; Gelfand, Lim, & Raver, 2004). However, few have sought to focus their analyses around the use of management accounting in these systems or on organizations facing decline or turnaround (see Rutherford (2014) for a notable exception).[36]

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[35] To elaborate, embedding accountability across an organization means that decision makers will think systematically and analytically about actions and behaviours instead of relying on emotions, instincts, or heuristic processing (Tetlock, 1983; Tetlock, 1992). In fact, researchers have demonstrated that increasing feelings of accountability increases prosocial behaviour in favour of opportunistic behaviour (Fandt & Ferris, 1990), conformity (flexibility) to expected behaviours when others' preferences are known (unknown) (Tetlock, Skitka, & Boettger, 1989) and conservative decision making (DeZoort, Harrison, & Taylor, 2006; Koch, Weber, & Wustemann, 2012) in favour of risk-taking behaviour (Lefebvre & Vieider, 2013; Pahlke, Strasser, & Vieider, 2012).

[36] Though progress has been made by examining the effects of accountability in experimental settings (e.g., Vance, 2010; Webb, 2002), these settings, by design, do not capture the interrelated realities and complexities within an organization. The range of accountability relationships possible, the diverse collection of mechanisms available, and the fact that small variations in an organizational task could implicate accountability differently in decision making and action all support more contextualized inquiry of accountability (Lerner & Tetlock, 1999; Tetlock, 1985).

3.2.5 Summary

Together, sensemaking, sensegiving, and accountability provide a framework for an organization to manage decline and achieve a performance turnaround. To my knowledge, just one other study seeks to integrate sensemaking and sensegiving with accountability. Cornelissen (2012) shows that social accountability pressures condition the sense an individual makes.[37] Based on Weick's seven properties, it is clear that sensemaking is malleable; for example, it is impacted by individuals' identities, based on retrospective memories, at risk of being veered off course by distracting cues, and it can suffer a low threshold based on plausibility. This highlights a valuable role for accountability—to guide and focus sensemaking and, perhaps in some cases, closely monitor or even control it. In contrast, sensegiving allows organizational members "to construct and articulate persuasive accounts of the world" (Maitlis & Lawrence, 2007, p. 80). Because the conditions of decline and turnaround are unfamiliar and unexpected, leaders cannot be expected to be the sole "thinkers" of the organization responsible for envisioning new futures and pursuing new knowledge (Smerek, 2011, p. 90). Other organizational members must also perform sensemaking and sensegiving exercises to help the organization progress towards improved performance. Through a combination of relationships and mechanisms of accountability, which results in broader stakeholder engagement, some assurance is provided for the adoption of an organization's present and future meanings.

3.3 Research Methods

My research site, referred to by the pseudonym HealthCo, is a public sector hospital that experienced decline and managed a performance turnaround. Yin (2013) provides several

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[37] For example, if one's own personal commitment to interpreting and enacting an incident is low and the perceived salience of others' expectations is high, then the individual's sensemaking will conform to others' expectations. If there are no accountability pressures to accommodate, then the individual will make sense according to his or her own role-situated commitments (Cornelissen, 2012).

rationales to identify when a single case study is an appropriate research design. HealthCo is

appropriate for in-depth analysis because it is a revelatory case—that is, a "phenomenon

previously inaccessible to empirical study" (Yin, 2013, p. 52). Members of organizations facing

decline are often hesitant to participate in research due to (1) the time commitment of

participating since decline already results in time pressures and (2) the sensitivity of

acknowledging and talking about declining performance. Thus, when my key contact at

HealthCo expressed willingness to participate, I accepted the opportunity to conduct a single

case study examining the use of management accounting during decline and turnaround.

3.3.1 *Site selection*

Identifying circumstances of organizational decline and turnaround requires a comprehensive

screening process. First, I became aware that HealthCo might fit the criteria for decline and

turnaround from a personal contact and then noted confirmatory signals in newspaper articles

(i.e., funding challenges, employee layoffs, and other resource constraints) (Cameron, Kim, et

al., 1987; Cameron, Whetten, et al., 1987).[38] Second, I examine more than a decade of

HealthCo's financial statements and annual reports to confirm decline (refer to Table 3.2 for a

summary of this analysis).[39] Third, motivated by public sector differences, I also consider

HealthCo's performance measures (e.g., efficiency, effectiveness), which many stakeholders

reported had degraded in quality.[40] Finally, it was also necessary to confirm HealthCo's

performance turnaround. Following prior research (Barker & Duhaime, 1997; Bruton, Ahlstrom,

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[38] In fact, HealthCo's story was a very public case. As a result, there were extensive articles available to help me prepare for interviews, triangulate facts, and understand the sequence of events.

[39] Since most metrics used to identify decline in the private sector are not relevant to the public sector (e.g., profit, ROI, ROA), I follow research (e.g., Hoffi-Hofstetter & Mannheim, 1999; McKinley, et al., 2014) by looking instead for significant negative trends (between 5 and 20% depending on the metric) in an organization's key resources in the three years leading up to the admission of decline and announcement of a recovery plan.

[40] A number of newspaper articles and casual conversations with members of the community confirmed HealthCo's challenging financial situation. Moreover, they confirmed declining service quality, patient satisfaction, and investment in maintenance and upkeep as well as increasing numbers of serious incidents, disease spread, and wait times for care. More objective measures (e.g., hand-washing counts, length of stay) confirmed these observations.

& Wan, 2003; Trahms, et al., 2013), turnaround was confirmed through a reversal of decline indicators, which HealthCo sustained for at least three years. Upon completing this principled screening process, I met with a HealthCo executive to collect his perceptions of HealthCo's performance and verify my own understanding of HealthCo's circumstances.

3.3.2 Data collection

For this study, I conduct 16 semi-structured interviews with a wide range of stakeholders: individuals from the accounting groups and leadership teams that were present before, during, and/or after HealthCo's decline and/or turnaround; past members of HealthCo's board of directors; the CEO and other team members of the relevant Regional Health Authority (RHA); and members of the investigative team charged with reviewing HealthCo's situation. Interviews are conducted face to face and average 55 minutes in length (refer to Table 3.3 for details). Interviewees are initially selected from within HealthCo to ensure diversity in functions, positions, and levels. I also follow up on suggestions made by interviewees on whom else I should speak with. All of the interviews are recorded, allowing for accurate and comprehensive transcriptions. I personally transcribe each interview in full and review it multiple times for accuracy. Each transcript is then sent to the interviewee to give him or her an opportunity to make corrections, provide clarifications, or identify statements he or she would not wish to see quoted.

In addition to interviews, I also consult numerous secondary materials. These include company materials available on HealthCo's website (e.g., annual reports, financial statements, key performance metrics, strategic plans); the documents reviewed and prepared by the RHA in their early investigations (more than 200 pages); both the investigator's and supervisor's analyses of HealthCo's situation and related recommendations (approximately 100 pages); the

turnaround plan devised by HealthCo's executives (approximately 30 pages); and a range of news articles before, during, and after HealthCo's shift from decline to improved performance.

My interview philosophy is to position myself as a learner, be an active listener, and use non-dichotomous open-ended questions but ultimately to keep my own words to a minimum so that participants can describe their experiences, share instructive examples, and think out loud (Patton, 2002; Yin, 2013). During the first part of an interview, my objective is to gain contextual knowledge about HealthCo. During the second part, I question interviewees about challenges they perceived the organization to be facing, how they used accounting in their positions, what information helped them understand decline, and what changes they felt contributed to improved performance. I let interviewees talk openly and at length, moving to a related area or idea they felt was relevant. As needed, I use prompting questions to refocus interviewees by requesting they talk about a challenge they identified and how accounting informed the issue.

3.3.3   *Theory development and data analysis*

According to my early formulations of this study's research questions, I carefully prepare a "toolbox" of theories—an assortment of theoretical frameworks that could become relevant as I enter the field. I intentionally select theories that cover a range of topics (e.g., power, stress, control systems) and different levels of analysis (e.g., organizational, individual) so that, as I begin to collect data, I am able to identify a relevant theory. In early interviews, I retain theoretical flexibility (Eisenhardt, 1989), but as interviews progress, I begin to narrow my set of relevant theories, test explanations, and select a relevant lens through which to analyze the data.

I follow Ahrens and Chapman's (2006, p. 836) prescriptions of "iteratively seeking to generate a plausible fit between problem, theory and data" as I conduct interviews, review

transcripts, and analyze data. I use theory to illuminate and discipline my observations and to help me organize and understand my data (Ahrens & Chapman, 2006). During each interview and from one interview to the next, I focus on "developing, testing, discarding and refining suitable theories" to help me understand the interviewees' narratives (Ahrens & Chapman, 2006, p. 825). With a tentative theory in mind, I pursue repeated data–theory iterations, consider alternative explanations and conflicting stories, and aim to provide a plausible and rich account of the case (Vaivio, 2008). Once the majority of interviews are complete, I integrate my field notes, interview transcripts, and secondary data sources to compose a case study for HealthCo. I then conduct additional patternmaking according to key themes that emerge throughout my analysis. At all times, I remain alert to anomalous data and their effect on my theorizations.

3.3.4   *Background context about the Canadian healthcare sector*

As HealthCo is embedded in the nationally mandated but provincially delivered Canadian healthcare system, a brief background on the context of that setting, focusing on the most recent developments, is needed. For an overview of the Canadian healthcare system, see The Romanow Papers (a three-volume series) by Forest and colleagues (Forest, Marchildon, & McIntosh, 2004; Marchildon, McIntosh, & Forest, 2004; McIntosh, Forest, & Marchildon, 2004).

In Canada, healthcare is delivered through a publicly funded universal health insurance system (commonly referred to as "Medicare") according to the *Canada Health Act* (adopted in 1984). The quality of healthcare is guided by federal standards and partially funded by the federal government (mostly through income taxes) but the administration and provision of healthcare services is a provincial responsibility. The federal government retains some oversight due to its responsibility to protect the health and well-being of the population. Individuals in Canada enroll to receive a health card issued by their provincial Ministry of Health and are then

able to access healthcare services as needed (without having to pay since the claim process is between Medicare and the service provider) except for items not included in the *Canada Health Act* (i.e., prescription drugs, dental care, prescription glasses, and home or long-term care). The actual provision of services is through either a physician operating a private practice (where he/she submits fee-for-service claims to the respective provincial insurer) or private not-for-profit or public arm's-length health organizations. Though the *Canada Health Act* identifies the essential healthcare services that will be publicly funded, there is some discretion at the provincial level as to what services are considered essential. Healthcare facilities including hospitals must operate according to agreements with—and, hence, are directly responsible to—their provincial Ministry of Health (Marchildon, 2013, 2014).

One innovation that grew, in part, out of the new public management craze of the 1990s (Osborne & Gaebler, 1992) was the adoption of the regionalized health model to deliver services at a sub-provincial level, which varies greatly in its implementation across the Canadian provinces (Marchildon, 2013). Regional health authorities (RHAs) were enacted to assume responsibility for delivering health services that are more effective, efficient, and fair and that reside closer to local communities. There are three key parties involved in a regional health model. First, government ministries retain policy-making duties, devise the strategic direction of healthcare, and oversee performance and accountability of the province's healthcare system. They retain explicit provisions for oversight and the ability to conduct inspections and audits. Second, RHAs partner with and deliver healthcare services to their designated regions, integrate and coordinate services across hospitals and other agencies, and distribute monies from the government to these hospitals and other agencies and monitor their performance. Third, hospitals and other agencies are responsible for the delivery of healthcare services within their regions.

3.4   Case Study of HealthCo

HealthCo is a public sector organization operating in the healthcare facilities service industry

(i.e., hospital). HealthCo is a leading institution in providing complex-acute and specialty care to

patients. Most services are delivered at its main hospital in a mid-sized city located in Canada,

but HealthCo also services patients at a number of satellite and affiliate sites in its respective

catchment area. HealthCo is a research and teaching hospital affiliated with a medical school to

conduct research and help train students. HealthCo receives approximately 90 percent of its

funding from the Ministry of Health, which is distributed by the RHA.

3.4.1   Onset of HealthCo's decline

HealthCo faced significant financial difficulties that began in the early 2000s and culminated in

2008. Organizational members felt that patient numbers and patient healthcare needs had

continued to grow alongside operating costs but that funding from the Ministry of Health had not

increased proportionately. As a result and, in part, due to deliberate decisions and operating

strategies chosen by HealthCo's management team, HealthCo began operating a deficit in the

late 1990s, which reached seven percent of revenues in 2008 (twice the actual deficit incurred in

2007). Though prohibited in its operating charters, HealthCo submitted an even larger budget

deficit for 2009 (i.e., twice the actual deficit incurred in 2008). A respondent referred to this

approach as "a principled position that was taken and supported by the board" (Program Director

5). Furthermore, management "didn't even strive for balanced budgets; they had a belief they

were underfunded" (COO 1). The perception of underfunding was consistent across members of

management and the board, and, in fact, management had been able to rationalize its deficit

spending with calculations:

They were going to run what they felt were the costs they required. They did an analysis, and they felt they were spending no more than anyone else was. So they felt they were then justified, therefore, to have the funding. (COO 1)

A board member confirmed that, with regard to overspending, "there was always a rational explanation" (Board Director 7).

Reflecting on the spending mentality that had been cultivated in the organization, the CFO remarked, "I can't tell you why people spent more money than they had. It's like, I keep saying, you know, to try and put it in laymen's terms, we had this great big MasterCard, and people took advantage of it" (CFO 2). Some respondents suggested that this spending mentality had developed partly because HealthCo felt like it deserved the money and was able to rationalize its spending and partly because HealthCo had established a track-record for deficit funding with the Ministry of Health. A board member recalled managers' casual responses to overspending: "Don't worry about it, because the Ministry always comes through with some money" (Board Director 7). In fact, the Ministry had established such a reputation for bailing out deficits that management and directors operated on this basis: "[the Ministry] would always bail [HealthCo] out at the end if there was a deficit. And, in fact, that was very much a part of the planning at the time" (Board Director 7).[41]

The use of accounting leading up to and during HealthCo's decline offers insights into the significant overspending and deficits and, importantly, the accepting culture that emerged. Respondents characterized the use of accounting up to 2008 as follows: "there was none when I arrived really" (COO 1), "no transparency... no accountability" (CFO 2), and "it was really sort

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[41] Executives at the RHA confirmed the government's role in HealthCo's accumulation of significant deficits. "You were almost doing yourself a disservice by having a balanced budget because you would get more money" (RHA-Data Analyst 16). The CEO of the RHA expressed that, before the implementation of RHAs, "hospitals would run a deficit budget as a strategic direction. And this is really, really the truth…. They saw it as their philanthropic contribution, that this was not a business, that this was a social service" (RHA-CEO 10).

of scratching for data" (Program Director 6). Speaking on behalf of the newly hired leadership

team, the COO reflected on the state of affairs when he was hired in 2008:

> *When we came here, we found that the organization wasn't aware of what its fiscal or business environment was. There was very irregular reporting, very little formal communication for responsibility and accountability.... We found people didn't know how to do a budget. The budgets were centrally done, primarily in finance. People weren't asked to report on their budgets. There was no formality or accountability to ownership of goals and targets within portfolios or cost centers.* (COO 1)

When I asked others to talk about the use of accounting leading up to 2008, some noted that the

financial statements were never distributed to managers or directors (CFO 2) while others

suggested that, if information was received at the board level, it was on a quarterly basis (at best)

and already several months outdated (Board Director 7). In describing the performance reporting

to the board, a respondent described "big, long pages of colored indicators, like almost un-

interpretable stuff" (PM Director 3). The same respondent felt that the information in these

reports lacked the detail necessary for decision making and that the accuracy and reliability of

the information could never be confirmed.

There were also several specific critiques of HealthCo's accounting system. Respondents

noted that the accounting information system was antiquated and, thus, not accommodating to

users' needs or properly integrated with other information systems and that the month-end

closing and reporting process took several months. A past board member suggested:

> *[I never got] any sense that the accounting system was used for anything other than keeping track of stuff. It was not used in any proactive or management sense or cost control or any of those things.... The accounting system did not seem to bring in any discipline to the system.... [It was used] as a straight bookkeeping function, and that was it.* (Board Director 7)

Several comments related specifically to HealthCo's budgeting system. Instead of formal budget

software for an organization with revenues greater than $300 million, HealthCo used Excel

spreadsheets—135 different files (CFO 2). Reflecting on the use of budgets in her particular

department, one respondent suggested that, although the hospital would purport a zero-based budgeting system, she had never done one (Program Director 4). Another respondent commented, "I always believed that the budgeting process was a bit of a farce in the sense that they always budgeted for break-even but never made that" (Board Director 7).

As a result of HealthCo's history of excessive spending and ineffective use of accounting information, a number of other issues arose. HealthCo's patient volumes and their healthcare needs had outgrown existing physical space, and the hospital equipment had become old and poorly maintained. Capital reinvestment had not been maintained, and, in fact, executives had been drawing on HealthCo's capital budget to fund operations. As one respondent stated, "there was pillaging of the capital budgets to a point where Greece was better off than [HealthCo]!" (Program Director 6). Furthermore, HealthCo had accumulated a significant working capital deficit (amounting to 27% of total assets in 2008; see Table 3.2) and had required a cash advance from the Ministry in order to meet its payroll deadline. Numerous instances were identified in which services were not being billed; were being billed after partners' projects closed, leaving HealthCo unable to collect payment; or were being billed at rates that were far below the cost of the service (Finance Director 9). Explaining her own department's past behaviour and HealthCo's behaviour in general, a respondent stated that "there were a lot of gentlemen kind of handshakes and no formal documentation" (Program Director 4).

3.4.2 Interactions with the RHA and Ministry

Though RHA executives agreed that the government had enabled HealthCo's culture of overspending, they also pointed to HealthCo's poor leadership and lack of information use as reasons for the decline. The CEO of HealthCo at the time was described as very engaging, persuasive, eloquent, and an excellent salesman (RHA-COO 13 & RHA-Data Analyst 16).

Consequently, "the board was very much supportive of the CEO... and did not question [his actions]" (RHA-COO 13). An RHA executive suggested that HealthCo not only suffered "a remarkable lack of financial analytical systems and ability within the organization" but also exhibited a "disinclination" to ground requests in facts, which was described as a "particular strategy of the senior leadership to get more money… and be dismissive of [the RHA] itself as a partner" (RHA-COO 13) since RHAs were a new regulatory initiative.[42]

In response to these issues, the RHA initiated its own review of HealthCo's finances.[43] A respondent noted

> *the fact that the story didn't make intuitive sense: giant growing deficits at enormous rates. The population here is barely maintaining let alone growing—and you only age one year at a time, and you're not getting that much sicker every year... the story didn't add up.* (RHA-COO 13)

It took the RHA little time to uncover that "HealthCo's volumes were basically flat, but their costs kept going up" (RHA-Financial Analyst 15); "they had a significant working capital problem" (RHA-COO 13); and there was use of "very, very loose activity-based costing" (RHA-PM Director 14). The RHA felt that HealthCo had "more than its fair share of the pie" (RHA-COO 13). The RHA had its analysis reviewed and confirmed by two independent healthcare experts before bringing the analysis to the minister.

Although the RHA felt that HealthCo was receiving a fair proportion of funding, HealthCo felt very strongly that the opposite was true.[44] This contradiction begs the question of whether this is really a case of organizational decline. However, organizational members shared

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[42] It is interesting to note that, because the regional health model was newly implemented in the province, the situation with HealthCo arose early in the RHA's appointment, so many respondents suggested that the resolution of the challenges between HealthCo and the RHA would have a significant role in determining the success and legitimacy of the model. It was suggested that "all eyes were on this debate" (RHA-CEO 10)—highlighting that other hospitals in the province were watching closely in hopes that HealthCo would attain a favourable outcome that would become a precedent.

[43] RHAs have unrestricted access to request and receive information from healthcare providers.

[44] Another event that intensified the performance challenges faced by HealthCo was when the government announced HealthCo would stop providing ambulatory care and instead become the sole provider of complex-acute and specialty care. From HealthCo's perspective, this created additional resource difficulties since they were required to fulfill more critical services that are more costly and time-consuming.

an overwhelming conviction that HealthCo was chronically underfunded—which was confirmed

through agreement between organizational members employed within HealthCo leading up to

decline, members hired after a supervisor was appointed, and the board directors and members of

the RHA.[45] Further substantiating HealthCo's decline, a respondent who was previously

employed in the private sector suggested that "this wouldn't have gone on that long.... They

would have declared bankruptcy a long time ago. They were bankrupt" (RHA-COO 13).

The RHA was able to persuade the Ministry to become involved by pointing to

HealthCo's management style, significant deficit spending, and unwillingness to cooperate. The

RHA argued that, without intervention, HealthCo would continue to struggle financially, conflict

between the RHA and HealthCo would grow, and the quality of patient care would soon be at

risk. Based on the RHA's request and the Ministry's own assessment, the Ministry assigned an

investigator to review HealthCo's situation. The investigator, working alongside a team of three

healthcare experts, quickly confirmed the conditions of HealthCo's finances. The investigative

report referred to, for example, significant operating deficits, a fully utilized line of credit, and

inefficient resource use. The report also noted little understanding of budgeting and cost drivers

within HealthCo and a total lack of and disregard for high-quality information inputs to inform

planning and decision making. Further, many of HealthCo's performance indicators showed no

marked improvement, patient length of stay was above average and increasing, and building and

equipment were in disrepair. The report concluded with a series of recommendations to address

each of these problems, the first of which was to appoint a supervisor to HealthCo.

The supervisor immediately dismissed the majority of the leadership team (including the

CEO) and temporarily disbanded the board of directors. The supervisor assumed responsibility

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[45] Recall that research shows the "perception" of decline is equally important in instances in which decline signals are ambiguous (Cameron, Kim, et al., 1987; Greenhalgh, Lawrence, & Sutton, 1988; Ponemon & Schick, 1991; Schick & Ponemon, 1993).

for both management and governance of HealthCo while recruitment efforts were underway. In a report to the Minister, the supervisor outlined a number of changes and new directions that would be required concerning HealthCo's governance, leadership, finances, operations, and culture. HealthCo's new management and board would be responsible for devising a turnaround plan with specific tactics and implementation details.

In retrospect, the Ministry's assignment of a supervisor was the turning point of HealthCo's decline. Since the CEO and the majority of HealthCo's leadership team were discharged, the supervisor initially filled the CEO's role and later appointed an interim CEO until the search for a new CEO was completed. Although the supervisor identified layoffs early on as a key way for HealthCo to begin to control costs, in the end, there were much fewer layoffs than were announced. Instead of removing approximately five percent of employees at HealthCo over a three-year period and affecting as many as 17 percent of other jobs in some way (as per the supervisor's prescriptions), the COO reported that layoffs were attained mostly through voluntary attrition (through, for example, an early retirement incentive program) but still involved significant turnover and targeted removal of staff.

3.4.3 *Understanding HealthCo's decline and formulating a turnaround plan*

As new executives began employment with HealthCo, they reported using a variety of forums to collect information and attempt to understand the realities of their organization's decline. For example, the new CEO met with a range of employees to collect their perspectives and insights, and executives hosted meetings in a "speed-dating" format with organizational members to collect additional insights, brainstorm, and problem solve. In addition to these forums, the CFO and Performance Management (PM) Director described activities through which they analyzed HealthCo's financial statements and accounting systems to determine how HealthCo had arrived

at its present status and what needed to change to improve performance. These exercises helped executives gain the necessary history and information to formulate a turnaround plan for HealthCo, particularly since departed leaders took with them key organizational history and information and also because other managers and employees were unfamiliar with the organization's finances.

HealthCo executives were required to prepare a formal turnaround plan for the Ministry by responding to the concerns listed in the supervisor's report and by detailing the steps they would take to achieve a full financial recovery while also maintaining (and, in many cases, improving) the quality of patient care. The turnaround plan was prepared not just to balance the budget operationally but to earn a surplus so that HealthCo could begin to return funds that had been drawn from the capital budget to fund operations. The Chief Nursing Executive (CNE) and Chief of Staff (COS), who were employed with HealthCo during both the onset of decline and the years under supervision, had a large role in the analysis and preparation of the plan. HealthCo executives also sought the expertise of external consultants to help devise the turnaround plan and outline a three-year implementation timeline. Additionally, the RHA provided analysis and support throughout the preparation of HealthCo's turnaround plan and monitored performance closely for the plan's three-year duration. Upon submitting the turnaround plan to the Ministry, HealthCo executives introduced it to organizational members through a formal launch and open forum discussion. Executives also reported other ways in which they sought to obtain organization-wide support for the plan—for example, through various educational opportunities and brown bag lunches.

As organizational members described HealthCo's performance improvement, they noted that they had been able to accomplish the objectives set out in the turnaround plan without

affecting the quality of patient care. Executives also began improving HealthCo's working capital position, which, in fact, was not part of the three-year timeline included in the turnaround plan. Once performance improved, executives continued to grow the business acumen at HealthCo by recently recruiting change management expertise, establishing a project management office, and formalizing communication processes.

3.5   Analysis of HealthCo's Turnaround

Sensemaking tends to occur around key events or crises that result in organizational members having to understand differently what the organization means. The focal event that triggered sensemaking and sensegiving processes at HealthCo was the assignment of a supervisor, which was a shock that threatened organizational members' existing identities. Although C-suite executives were likely aware of HealthCo's poor financial situation, they were still caught off guard because they had incurred significant deficits for many years without consequence. Other organizational members were less likely to have known about HealthCo's financial situation and so the assignment of a supervisor was seen with disbelief and overturned everything they thought they knew and understood about the organization. In addition, the significant attrition and leadership changes also shocked and destabilized remaining organizational members' identities. Before the assignment of the supervisor, organizational members had established ways to make sense of their surroundings individually and ways to integrate these understandings into shared understandings across the organization. Now, organizational members were faced with fewer co-workers and unfamiliar leaders to collaborate with, and furthermore, they must make sense of a very different organizational climate. The lifelong employment public sector employees had come to expect became at risk as HealthCo's survival as an organization became uncertain;

identities were shaken and what was previously familiar to organizational members became unstable and uncertain.

3.5.1 *Using sensemaking to understand HealthCo's past*

My examination of the management of HealthCo's decline highlights sensemaking as an important process through which members formulated understandings of HealthCo's past, how declining performance began, and the realities of decline more generally. I observe that executives used a number of forums to facilitate employees' sensemaking processes early in the recognition of decline. I also observe that executives engaged in their own sensemaking processes to understand decline and identify where changes needed to be made to facilitate a performance turnaround. In these latter sensemaking processes, executives relied on accounting analyses to help them deconstruct the past and reconstruct a more promising future. Without these carefully facilitated opportunities for organizational members to make and give sense, the unexpected and crisis-like events (e.g., assignment of a supervisor, difficulty meeting payroll requirements, announcement of layoffs) that led to the recognition of HealthCo's decline could have affected what sense was made since sensemaking theory suggests that individuals make sense according to "what is out there" (Weick, 1993, p. 20). Instead, respondents identified a number of instances in which forums had been arranged or accounting had been used to understand HealthCo's decline.

From my observations, actively supporting and facilitating the sensemaking of organizational members at HealthCo appeared to be critical to the management of decline and pursuit of a performance turnaround. For example, the new CEO spent the first few months meeting with more than 2,000 people (individually and in groups) at all levels of the organization to collect their perspectives and insights—and to plant the initial seeds of change. The CEO used

the meetings first to introduce herself and her ideas and then to collect ideas from employees. The few structured questions she consistently used in these meetings were focused on change and ways in which performance could be improved (e.g., what are the top three things that need to change and why?). Respondents believed that these meetings with the CEO, during which non-technical language was used, were helpful for understanding HealthCo's past and the onset of decline.

Another sensemaking exercise, referred to as "speed-dating" by executives, also facilitated shared understandings of HealthCo's decline. The COO described the speed-dating sessions employed by executives as a collective problem-solving approach in which organizational members share ideas for five minutes and then rotate to a new table at the sound of a bell. The COO explained that, at these speed-dating sessions, a strategic goal is identified to participants (e.g., improving the quality of patient care) and then they are asked to brainstorm solutions to a related issue (e.g., increasing patient wait time). At the end of the speed-dating sessions, key initiatives are selected for action, an organizational member volunteers to lead an initiative, and other members choose to engage based on the discussions they consider to be of greatest relevance to them. In describing the speed-dating approach, the COO specified that the issues selected for discussion were focused on those management perceived to be important to HealthCo's decline and that the brainstorming task was framed around improving or solving these issues. Similar to the meetings with the CEO, these forums introduce cues that are easy for organizational members to understand due to the non-technical language used and are related to performance improvement and the future executives hope to create for the organization. Otherwise, organizational members are likely to construct narratives that overemphasize HealthCo's poor behaviours and negative performance retrospectively since, in sensemaking,

what is unfolding at the present moment will affect what is discovered about the past (Weick, 1995).

One of the key findings of executives' early reviews of HealthCo's situation was that the organization had data but had failed to shape it into decision-relevant information: "This was an organization that was data-rich, data-rich in a way that many organizations weren't. It just wasn't being translated into meaningful information that actually drove decision making" (CNE 11). Organizational members had not previously engaged with or tried to understand the data being collected at HealthCo. Moreover, a respondent expressed that "there [were] hundreds and hundreds and hundreds of things being measured or collected or put into spreadsheets, but it didn't connect, it didn't have any accountability.... It was just a repository of information" (COS 12). Executives quickly realized that, "when you mined into some of this stuff, you could really get at [how to improve and run the organization]" (CNE 11). Motivated by this realization, the CFO and PM Director undertook sensemaking exercises to transform the data into decision-relevant information.

Instead of the non-technical language used to make and give sense in the CEO meetings and speed-dating sessions, the CFO used the language of accounting in her own sensemaking processes to understand HealthCo's decline. Upon joining HealthCo, the new CFO analyzed previous financial statements in order to understand how HealthCo had arrived at its present status and what needed to change. She retrieved and compared more than a decade of financial statements to examine year-over-year changes with a focus on sources/uses of cash, borrowing practices, capital investment, and any significant fluctuations in operational expenditures. The CFO described her analysis of previous financial statements as follows:

> *We called it "Understanding the Past"—so we went back to the last time this hospital had a balanced operating budget and a positive working capital position. You had to go*

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back to 1995/1996.... So we had to go back, at that time, 13 years, to find where we had a good fiscal position.... So we were trying to sort out, you know, why did we [the new executive] find ourselves at the hospital and on the board? Why did we find ourselves in such a position of debt?

... So we went and took the 13 years' worth of audited financial statements and just compared, you know, what happened each year.... And it's interesting if you look at it; in that period of time, we didn't overspend on capital. It was purely on the operational side.... Now, I can't guess why people did that, but they did. It was interesting to go back and say, "Okay, here we had money". [And as we went through the 13 years, you start to wonder], "What were they [the previous executive] thinking?" (CFO 2)

The CFO highlighted that this information-seeking process was of crucial importance since departed leaders took with them key organizational history and information. Further, because HealthCo's use of accounting information was focused on external reporting up to 2008, other managers and employees were not familiar with the organization's finances and, thus, were not able to provide any accounting-based explanations or history. The CFO felt that understanding HealthCo's history through this analysis was important to the development of a plan for performance improvement and financial recovery as it resolved some of the uncertainty associated with decline.[46] This exercise reflects the first property of sensemaking wherein an individual must make sense of something for him or herself before being able to make sense with other organizational members.

Another information-seeking component of HealthCo's turnaround was the extensive review of HealthCo's existing accounting system, which a respondent described as "cleansing of the data" (Program Director 4). The PM Director described the process as follows:

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[46] During data collection, I did not gain access to the CFO's analysis to determine how reasonable or accurate it was, and, furthermore, I might not have been able to make this judgment as an outsider. In sensemaking, however, the objective is not accuracy but plausibility. Decision makers cannot always afford the time to think carefully and process all available information, and, furthermore, the information they feel they need is not always all available. Instead, managers have to act quickly and can do so confidently based on the decision heuristics obtained from sensemaking. Decision makers need to establish some understanding (regardless of accuracy) to move forward (Sutcliffe, 1994; Weick, 1993); feelings of order, clarity and rationality are sufficient. At HealthCo, this suggests that going through the motions of analyzing the past and establishing some understanding of decline was enough to provide a basis for decision making and action and to begin working towards a performance turnaround.

So, we put a team of people together, and we literally set up a process—an exhaustive process—where we dragged every director or program leader of a budget of a functional area in the organization through a process where we would—it took months to prepare this—but we would go through their budgets line by line in relation to percentile performance and benchmarks from other teaching hospitals in the country and in the province.... It was as much of an education on—a truly peer-to-peer education on: "Look, we don't like this as much as you do, but we've got to find 30 million bucks, we think that if we were to proportion this out on orders of magnitude, you owe four to the process. We're not saying that's the way we're doing it, but you need to understand that, proportionately, you run a big part of the hospital, so we're looking for you to step up more than we might somebody that has a $50 thousand budget". (PM Director 3)

To facilitate this "cleansing" exercise, a performance management team was set up to perform the analytical work that would support benchmarking as well as the search for operational efficiencies (i.e., $30M initially to balance the budget and 2–4% in years following recovery to cover inflation and salary increases and to build capital reserves). Then, the performance management team consolidated the number of cost centres being used (e.g., one department removed one-third of its existing cost centres) and ensured that directors understood and were accurately assigning costs. Following this step, the performance management team met with one director at a time to review existing spending habits in search of cutting $30 million of expenses. Upon completing this cleansing exercise, directors were given an objective (e.g., cut 4% from their department) and persuaded to participate according to the provided framework.

Once program directors received instruction and, ideally, accepted their assignment to cut expenses, each program director was paired with a financial analyst to support budget preparation, variance reporting, costing, and analysis of new or changing initiatives. A respondent explained that this was done to "provide some business acumen to the leaders while they developed their own" (COO 1). This cleansing exercise was a key way in which executives were able to get organizational members with accounting expertise deeply engaged in a review of HealthCo's existing accounting system and members' past spending habits. It was also an opportunity to begin introducing accounting concepts and language to organizational members

without such expertise (e.g., program directors). The cleansing exercise represents another example of members' use of accounting to make sense of the past while also beginning to rebuild the organization's future. Hence, we find sensemaking and sensegiving processes are tightly bound together.

The perceptions of the new management team were that, in addition to facilitating a shared understanding of the realities of HealthCo's decline, the exercises performed by the CFO and performance management team led to several other favourable outcomes. For example, the review of HealthCo's accounting system addressed the billing deficiencies highlighted by respondents (e.g., not billing, under-billing) (Finance Director 9). Additionally, though public sector organizations are relatively limited in terms of revenue generation (especially hospitals), the sensemaking exercises highlighted new ways for the leadership team to generate revenues. HealthCo began providing private rooms at a cost, renting retail space to a coffee shop and pharmacy, and providing services for which a fee can be charged (e.g., baby pictures, designer casting, hearing aids) (Business Development Director 8). Relatedly, a number of initiatives to garner cost savings and efficiencies were highlighted. For example, HealthCo introduced dedicated phlebotomy teams that are faster, make fewer errors and use less expensive equipment when drawing blood; removed unnecessary frills like free lunches during meetings and unlimited bottled water for all employees; and established stronger buying power by connecting with other institutions to purchase medical supplies and other services (CFO 2). By continuing to review and reformulate organizational practices, HealthCo's future is being continually re-shaped.

To summarize to this point, the appointment of a supervisor and subsequent recognition of decline interrupted HealthCo members' habitual and ongoing sensemaking processes. Rather than permit organizational members to consider the infinite number of phenomena that surround

them and are available for sensemaking, HealthCo executives facilitated sensemaking processes by highlighting cues focused on performance turnaround in place of the shocking and negative cues associated with decline. Changes to individual sensemaking processes, which are later integrated into organizational sensemaking, are inescapable in recognizing decline but provided HealthCo with an opportunity to shape what meanings and interpretations unfolded. Like the identity shift observed in a study of the New York Port Authority, "the close link between an individual's character and an organization's image implies that individuals are personally motivated to preserve a positive organizational image and repair a negative one through association and disassociation with actions on issues" (Dutton & Dukerich, 1991, p. 548). With the new information of HealthCo's decline, organizational participants can take responsibility or disown the information, act defensively or proactively, behave consistently or inconsistently with the new organizational identity, and treat it as a threat or opportunity for the future.

3.5.2 *Persuading organizational members to participate through sensegiving*

With an understanding of HealthCo's past and the realities of decline—obtained through the sensemaking and sensegiving processes analyzed so far—organizational members devised a three-year performance turnaround plan. The CNE, in summarizing how executives prepared the turnaround plan, described it as "a backward-looking reflection" (CNE 11) that included extensive benchmarking, variance analysis, and budgeting to determine where HealthCo was performing well, where there was room for improvement, how they might achieve these improvements, and what time frame would be possible. The CNE referred to this process as "the beginning of the declaration of our principles to say there has to be accountability" (CNE 11).

Creating the turnaround plan was driven from the top since "staff did not own the mess", (COS 12) but executives introduced the turnaround plan to all levels of the organization

immediately thereafter through a formal launch and open forum discussion of the plan. At this launch, executives' intentions were, ideally, to engage all levels of the organization in the implementation of the turnaround plan. The COS recalled preparing what he referred to as a "motivational slide deck" to persuade employees to participate in HealthCo's efforts to improve performance. Reflecting on this initiative, the COS questioned whether it was a "good strategy to present motivation slides to people filled with fear of change and anger" (COS 12) but believed the forum served its intended purpose of explaining HealthCo's financial situation to organizational members. Consistent with the theoretical perspectives of sensemaking and sensegiving (e.g., Maitlis, 2005; Weick, et al., 2005) and regardless of whether delivery through the motivational slide deck was appropriate, it is important to provide organizational members with opportunities to integrate their individual understandings with others' and to influence the understandings of other organizational members. If sensegiving processes were left unguided by executives, the realities of decline could lead organizational members to integrate meanings in a negative and problematic way. Further, not facilitating the integration of individual meanings into shared ones could lead to inconsistent or contradictory understandings, which could challenge the implementation of HealthCo's turnaround initiatives.

Once organizational members became aware of the turnaround plan, executives conducted a number of sensegiving exercises with the aim of ensuring organizational members understood key parts of the plan and were persuaded to support and become involved in the plan. Various educational opportunities were provided since the new management team perceived that information sharing had not been the norm at HealthCo leading up to 2008. Recall that respondents characterized the use of accounting as follows: "there was none when I arrived really" (COO 1), "no transparency... no accountability" (CFO 2), and "it was really sort of

scratching for data" (Program Director 6). Accordingly, "learning days" were instituted in order for program directors and other managers to learn specific tools and skills via online course offerings. The COO and CFO partnered to host brown bag lunches with leaders and employees invited to the boardroom to learn how budgets and ministry funding work and the use of other reports and tools. In many of these sensegiving forums, leaders tried to teach employees key accounting terms of reference such that, through a consistent and shared language of accounting, they might better understand HealthCo's circumstances. Prior research has shown that misalignment between the messages managers think they are giving and those employees think they are receiving can happen easily (Mazzei & Ravazzani, 2011), so providing opportunities for organizational members to interact, socialize and learn a common language (i.e., accounting) helps to both make and give sense. Accordingly, common language facilitates shared meanings, and shared meanings have been shown to result in more helpful and adaptive sensemaking (Maitlis & Sonenshein, 2010).

The stability that typically characterizes public sector organizations could have prevented members from recognizing the severity of HealthCo's decline. Instead, the sensemaking and sensegiving processes employed in HealthCo seemed to have transitioned individual members' understandings into understandings that appeared to be diffused and accepted collectively across the organization. To facilitate this collective understanding, it was common for executives to identify ways in which they had tried to relate accounting concepts (e.g., debt, budgets, spending) to the personal lives of organizational members and to things they should be readily familiar with outside of the workplace. For example, to explain the challenging financial situation HealthCo was facing to employees, the COO likened the organization's debt to personal credit cards and the high interest rates that accompany overdraft. He believed that explaining

HealthCo's situation this way shortened employees' learning curves (COO 1). Naturally, people

are more comfortable learning when it is based on things they already know and understand.

Physicians were described as a particularly difficult group to persuade to support

HealthCo's turnaround plan. As professionals, they expect autonomy over their work, which was

permitted to flourish during HealthCo's previous ways of permitting flexibility and free rein

(COO 1). Initially, the physicians were not receptive to requests for them to decrease spending,

search for efficiencies, or take ownership of their respective areas. However, executives later

determined that an effective way of reaching this group was to openly share data with them and

compare them to their peers. A respondent described, "Doctors don't like being compared to

other people; they don't like [it] being displayed that they're 'not as good as'. It puts up a very

competitive environment by showing data" (COS 12). The respondent elaborated:

> *There was a lack of understanding as to how they could impact it [HealthCo's*
> *performance], and so what do we have to do? Show them the data! Show them, you know,*
> *you're only doing 20 percent of your discharge summaries, and he's doing 100 percent,*
> *and put it in their face. So that's a really important part of getting their engagement. Just*
> *show them the data.*
>
> *I think that the use of the data is very important—a very important part of it—because,*
> *unless there's information that is reliable and accurate, it's of no value. The docs will*
> *always try and rip it apart, how it's not true, it's not really mine, it's one of his, one of*
> *yours, so, therefore, it's not true. They'll try and find holes in it, so it has to be good data.*
> (COS 12)

Without meaningful inputs to their sensemaking processes, physicians were unable to understand

HealthCo's situation and, as a result, were unwilling to support the turnaround efforts. Once

physicians were persuaded of the connection between their actions and key performance metrics,

they were willing to support and become involved in pursuing HealthCo's turnaround plan.

Throughout the first year of the turnaround plan, HealthCo maintained a flexible structure

for how program directors should track and report performance since leaders were new and not

yet familiar with the information and report formats that would be useful for managing decline.

For example, in the first few monthly performance reporting meetings, program directors were permitted to use their own templates and descriptions. The leadership team relied on the fact that, "even in their personal lives, [people] are used to tracking and measuring and having goals in place" (COO 1). As the end of the first year of HealthCo's turnaround efforts approached, the leadership began to understand what information would help run the organization, and, as a result, they imposed specific guidelines and PowerPoint templates on program directors.

The COO reflected on the turnaround process adopted at HealthCo and the role filled by financial statements and business tools. Upon doing so, he highlighted the importance of having a shared language, which is critical to sensemaking and sensegiving processes:

> ...[T]here are balance sheets, there are income statements, there are resources—you can break it down even further into tools to get your job done, products that come out of it, you know, that sort of thing.
>
> I think that has all helped to understand how the place works. So it's become a language to be used. I don't think anyone that we talked to across the organization wanted to be an accountant—but they actually appreciate learning how it [accounting] actually tells a story and then how that ties to reality. So, the idea that we can buy capital now because this has happened and this is what it looks like on the thing [financial statements]. So, the papers, the forms and stuff, I think, help people make sense of it. So, the accounting side of it has helped take some things that are very complex and give it a framework they can actually tell the story. (COO 1)

The shared language of accounting that spread across HealthCo, to the surprise of the executive team, resulted in hearing conversations of key performance metrics in the halls of HealthCo and situations in which non-accountants were actively referring to, and correcting others of, particular accounting metrics and meanings.

To summarize, sensemaking and sensegiving processes helped organizational members understand what led to HealthCo's decline and what needed to happen to improve performance. The use of sensemaking and sensegiving did not begin because of HealthCo's decline; sensemaking and sensegiving are always ongoing and never stop. However, significant

interruptions that deviate from the way individuals have become accustomed to operating influence sensemaking and sensegiving processes. Consequently, HealthCo's recognition of decline led to a different impetus behind its sensemaking and sensegiving processes. HealthCo introduced new forums to deconstruct the past and provided guidance for the reconstruction of a more promising future. Further, executives used sensegiving to persuade members organization-wide to support and become involved in turnaround efforts at HealthCo. Managers are authors (Weick, 1993, 1995); it is the leaderships' role to argue persuasively for the next chapter in an organization's story. Sensegivers might not know the "right" path forward, but it is their responsibility to confidently tell the story as it might be.

3.5.3   *Holding organizational members accountable*

My analysis highlights that various relationships and mechanisms for accountability were either introduced or re-established as organizational members managed HealthCo's decline and implemented the steps outlined in the turnaround plan. Accountability was instituted in order for organizational members to feel they have the discretion and ability (through new accountability relationships) as well as the means (through an understanding of key accounting metrics and accountability mechanisms) to invoke accountability from other organizational members. Increases in legislation and reporting requirements in the industry, although not motivated by HealthCo's decline, made increases in accountability more meaningful.

In my analysis so far, I have identified several accountability relationships including ones (1) between the new CEO and employees, (2) between program directors and financial analysts, (3) between program directors and the performance management team, (4) between physicians and the organization, and (5) among employees organization-wide. In addition to these relationships, executives updated accountability relationships in other ways to support the

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monitoring of HealthCo's turnaround plan. For example, individuals were recruited to advise

HealthCo based on their personal experience as previous patients of the hospital. These patient

advisors work alongside frontline employees, participate in relevant meetings, and provide

feedback to HealthCo's leadership team. The patient advisors have a mandate to hold HealthCo

accountable to the performance objectives identified in the turnaround plan and to higher and

continually improving performance. Though patients were integrated into various departments

and programs for the purpose of holding HealthCo accountable to providing quality healthcare,

the leadership team believes that patient advisors are particularly important because they will

also save the organization money in the long-run; "they see things that we do not see; they see

waste that we do not see" (COO 1). During HealthCo's cost cutting and search for efficiencies,

the presence of patient advisors became a constant reminder (or "cue") that organizational

members must evaluate the effects of any changes on the quality of patient care.

The CNE noted that the willingness of HealthCo's leaders to be held to account by

patients built confidence in other members of the organization such that they also became more

comfortable invoking accountability: "I think what we demonstrated as a partnership with

patients has helped build the confidence that partnering at any level in the organization is fair and

good" (CNE 11). In alignment with organizational members' increased level of comfort for

invoking accountability, the COO described that employees had not held back in holding the

leadership accountable. He described:

> *When we go and talk to the staff around the hospital—even the [unionized] departments,*
> *etcetera—they want to know how we're doing against the debt. They want to know it's*
> *being paid off, and when it's gone, they're going to want to know what we are going to*
> *spend the money on.* (COO 1)

The increase in calls to account noted by respondents only became possible once information

was made widely available and organizational members were taught how to understand and

speak the language of accounting. Reflecting on HealthCo's use of accounting and other information in recent years, a respondent described a "much more hard-lined approach to business matters [such that], if it doesn't meet some sort of business metric, it's not considered" (Program Director 5). From my observations, it seemed that the language of accounting provided organizational members with terms of reference to talk about performance and invoke accountability.

The PM Director spoke at length of the cleansing exercise used in the management of HealthCo's decline, which I identified earlier as an important process that engaged organizational members and, in particular, those with accounting expertise in reviewing HealthCo's performance. As the PM Director reflected on some of the changes and benefits that he felt arose from the cleansing exercise, he identified the importance of accountability as organizational members sought to understand and manage HealthCo's decline:

> *So one of the good things that has come out the whole [process to search for] operational efficiencies, as well, is some more clearly defined lines or roles—not so much lines, like not hard barriers that you can't step over, but more just who's responsible for that? Who's accountable for that? This doesn't mean there is hard division and less team work; it just means that there are clearer lines of accountability in terms of where the people we support—all those people that provide the care—need to go for the information that they need to manage their budgets, understand their activity, and keep the engine running as efficiently as possible.* (PM Director 3)

As the performance management team reviewed HealthCo's existing accounting system and members' past spending habits, they also began to establish the operation of accountability across organizational members. Here, the relationships that were established made it possible and acceptable for organizational members to invoke accountability from one another.

In addition to defining "lines" and "roles" of accountability, the cleansing exercise led to the introduction of various new performance metrics—some of which are distributed in monthly reporting packages and others on a daily basis. During interviews, it was common for

respondents to refer to "red", "yellow" or "green" in describing the status of a performance target. The value of these metrics for monitoring performance and understanding who is accountable for what was highlighted by the COS: "[T]he biggest change with those metrics and numbers has been the accountability of who has to be responsible for them…. [Y]ou can't build on something if you don't know why it's happening" (COS 12). Respondents noted that many of these metrics are posted online to increase circulation and accessibility and, furthermore, that more frequent meetings are held to review these metrics and discuss barriers to success. Following the introduction of these metrics for invoking accountability, relationships were (re)formalized for the leadership team to report to the board of directors and a newly instituted resource committee. Organizational members, with easy access to accounting-based assessments of performance, were able to engage with, talk about, and encourage each other concerning HealthCo's performance. Regular use of the language of accounting ensured that organizational members remained focused on improving HealthCo's performance.

HealthCo also introduced additional mechanisms through which members would be held accountable to improving their own and the organization's performance. For example, performance agreements were instituted with managers early in the turnaround plan and, more recently, with employees outside of management. These agreements are not linked to a bonus of any kind but are in place to ensure all organizational participants try to achieve their targets. In describing the performance agreements initiated with non-managers, the CFO stated that, instead of accountability for performance outcomes, they "had accountability to look at processes they were doing that would help the organization be more efficient [and also had accountability to] themselves to take classes and develop more capabilities through education" (CFO 2). By sharing more information via performance metrics while ensuring organizational members

remain involved via accountability contracts, research suggests that decision making will be improved via more complex and analytical evaluation as well as greater use of data in forming judgments and making such decisions (Lerner & Tetlock, 1999; Tetlock, 1985).

In addition to the performance metrics resulting from the cleansing exercise and accountability contracts initiated with managers and employees, I have referred throughout my analysis to several other mechanisms used to invoke accountability including (1) the CFO's analysis of previous financial statements, (2) new or revised information and report formats, (3) increased circulation and accessibility of this information and reports including performance metrics, and (4) other objectives and initiatives identified in HealthCo's turnaround plan.[47] Reflecting on HealthCo's performance turnaround and some of these new mechanisms, the COO referred to accounting as "the backbone" of accountability such that, by being provided with information, employees were able to tell whether they were meeting targets and delivering on their part of the turnaround plan. With these new mechanisms for accountability, organizational members now understood what they and others were accountable for and had gained new means to invoke accountability.

When respondents referred to "being accountable"—which was pervasive in interviews—it was not always clear who it was they felt accountable to. This uncertainty might be explained by the unusual characteristics of being a public sector organization but might also be explained by the multidirectional accountabilities put in place at HealthCo (e.g., downwards, upwards, horizontal). For example, in describing her feelings of accountability and the organization's accountability more generally, one respondent highlighted many possibilities:

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[47] Anecdotally, a visit to HealthCo's website makes it clear that something changed in the organization around 2008. Similar to the low level of information sharing within HealthCo pre-2008, very little company information was disclosed online. Beginning in 2008, however, HealthCo's transparency and accountability practices changed significantly; for example, the website contains bylaws, policies, strategic plans (short- and long-term), quarterly and annual reports, and financial statements. Respondents confirmed that the extensive information that became available on the website was due to the new CEO's movement towards greater accountability.

This is my money too! I'm a taxpayer, so am I okay with wasting money? I don't think so. And you know what, I'm a taxpayer, but I'm also a patient, meaning you know what, I live in [anonymized city], this is my hospital, this is where I go, I don't want to see waste because, at the end of the day, I know the political picture. There's only so much money to go around. (Program Director 4)

This quotation is not intended to suggest that members of HealthCo were not accountable to anyone or for anything prior to 2008 but that accountability was neither balanced across stakeholders (e.g., accountability to doctors and patients had become more important than the Ministry) nor in place for the right reasons (e.g., patient care surpassed any financial concern). Consistent with theories of accountability (e.g., Tetlock, 1985; Willems & Van Dooren, 2011), accountors need not feel they have a clearly defined accountee; instead, organizational members are mindful of their actions because of the mere possibility of being held to account.

To summarize, my observations and respondents' narratives highlight operationalizations of accountability—formal and informal, hierarchical and otherwise—as critical to HealthCo's performance improvement. Without prompting, a strong theme of accountability pervaded organizational members' reflections as they explained HealthCo's performance turnaround. HealthCo's heightened accountability consisted of overlapping mechanisms enforced through multidirectional relationships. Although supervisor/subordinate accountability did not disappear, accountability was shared among all organizational participants; it became everyone's job to hold everyone accountable to all performance indicators. The multidirectional nature of accountability employed among internal stakeholders internalized feelings of accountability to the extent that they were drawn on in organizational decision making and action, facilitating HealthCo's performance turnaround. Further, respondents felt that accounting became an important language that helped facilitate HealthCo's turnaround, which I describe further in Appendix 3A. Decline leads organizational members into unfamiliar circumstances in which any move could be an organization's last due to its fragile state. Accordingly, accountability is

required to steer members in the right direction and hold them accountable to their actions as an organization's story unfolds.

3.5.4 *Accountability as an adjunct to sensemaking and sensegiving*

My analysis highlights accountability as an important adjunct to the theoretical perspectives of sensemaking and sensegiving—one that merits theoretical elaboration rather than remaining an implied concept. Based on my observations and respondents' narratives, sensemaking was an important process that seemed to facilitate a relatively consistent understanding of the realities of HealthCo's decline, which focused on terms of reference related to performance improvement instead of any alarming meanings that could have established had sensemaking forums and the language of accounting not been leveraged. Moreover, sensegiving was an important process that seemed to facilitate consistent support for and involvement in achieving HealthCo's performance turnaround. Sensemaking at the individual level that evolves into shared meanings and understandings across the organization through sensegiving—via a common language such as accounting—is consistent with prior research (e.g., Smerek, 2011; Weick, 1993, 1995; Weick & Roberts, 1993). What is novel here, however, is that the sensemaking and sensegiving processes did not unfold naturally but were instead carefully facilitated and appeared to be largely imposed on organizational members and monitored through an emphasis on accountability.

Accountability shaped, constrained, and focused the sensemaking and sensegiving processes across HealthCo. I revisit the properties of sensemaking and sensegiving and summarize empirical examples of HealthCo members' sensemaking and sensegiving processes in Table 3.4 alongside evidence of how accountability supports these processes. Within HealthCo, accountability fulfilled a key role in assuring that managers and employees worked together to lead an organization experiencing decline to turnaround. Organizational members

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learned to understand and talk about accounting, and they then used accounting information to hold themselves and each other accountable to acting on the understandings obtained from sensemaking and sensegiving. It became the responsibility of organizational members at all levels to engage with various financial and nonfinancial indicators to invoke accountability. Accountability disciplined the meanings that were constructed and provided assurance that these meanings, derived from sensemaking and sensegiving, were incorporated into organizational behaviour.

In organizational life, there is an infinite number of cues on which to focus and of which to make sense. Implementing progress checkpoints and performance measures that are visible and salient means this information will be factored into ongoing sensemaking and sensegiving. What organizational members see, hear and extract affects how they behave next, so pervasive operationalizations of accountability encourage or, in some cases, discipline organizational members to remain involved in and accountable to improving organizational performance. The more numerous, varied and accessible the relationships and mechanisms of accountability became in HealthCo, the less risk there was that a key metric or activity would be forgotten during sensemaking, sensegiving, and subsequent action.

Though accountability is always present in organizations and implied in sensemaking and sensegiving processes, it is of even greater consequence in the uncertain and chaotic environments of organizations experiencing decline. In sensemaking and sensegiving processes conducted during decline, accountability means noticing more, perceiving unexpected events earlier, and carefully diagnosing situations; it means applying neither band-aid solutions nor familiar solutions to unfamiliar situations; and it means that members not only follow through on intended plans but are willing to be held accountable to the outcomes and consequences of their

actions. Accountability also strengthens the relationships between members as they make and give sense, which results in cooperation, input and commitment from a wider range of members, leading to an increased likelihood of performance turnaround. In sensemaking and sensegiving, accountability is the mechanism that ensures organizational members work together to construct and communicate meanings, and it is the mechanism through which members feel accountable for their actions taken in relation to these meanings.

3.6   Discussion and Conclusion

This research has demonstrated that accounting is an important tool and language for a public sector organization as it manages decline and pursues a performance turnaround. Not only were several management accounting practices (e.g., year-over-year comparatives, variance analysis, benchmarking) seen by organizational members as helpful in understanding HealthCo's decline and in persuading organizational members to pursue a turnaround, but multidirectional relationships and varied mechanisms of accountability ensured that these understandings and meanings were incorporated into decision making and action. Indeed, a complex and overlapping web of accountability was seen by organizational members as helpful in keeping all members and performance metrics on target during the management of decline and pursuit of turnaround. The findings of this research, conducted through the theoretical lenses of sensemaking and sensegiving complemented with accountability, make contributions to both practice and theory.

Extant research rarely identifies or elaborates on the underlying processes involved in decline and turnaround management. There is some convergence on the notions that strategic issues should be resolved with strategy-based solutions and, likewise, that operational issues should be resolved with solutions focused on operations (Barker & Duhaime, 1997; Levine, 1978; Robbins & Pearce II, 1992; Schoenberg, et al., 2013). However, these studies do not

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explain precisely "how" solutions should be determined and implemented. Accordingly, my study joins a small collection of research that attempts to show how management accounting is deployed during decline and turnaround (e.g., Aidemark, 2001; Becker, et al., 2015). It also responds to several calls for researchers to consider accounting in general and management accounting specifically in organizations experiencing decline (Bozeman, 2010; Hopwood, 2009; Van der Stede, 2011).

The first contribution of my research is the collection of management accounting practices I highlight as helpful for management of decline and pursuit of turnaround. Accounting practices were actively used in sensemaking to understand how decline manifested by dissecting past financial statements. For example, year-over-year comparatives and variance analysis were key to constructing a plausible story of how HealthCo ended up in decline. Accounting was also instrumental in garnering employee understanding and participation in facilitating a performance turnaround and in persuading external stakeholders of the organization's ability to recover. For example, extensive benchmarking and steps to make key performance metrics known and visible were used by HealthCo's leaders to communicate a shared understanding of the organization's future and to encourage organization-wide involvement. Whereas prior researchers have identified key gathering points where sensemaking and sensegiving happen (e.g., meetings, town halls), I provide a detailed description of accounting as a language in which to make and give sense. This adds to an emerging collection of research that examines the use of accounting in sensemaking and sensegiving (e.g., Heidmann, et al., 2008; Kraus & Strömsten, 2012; Tillmann & Goddard, 2008). Moreover, these findings are valuable to practitioners because I identify familiar and relatively simple tactics that can be deployed to manage decline and improve performance.

Though sensemaking constructs meaning and sensegiving influences how people attribute meaning, there are no theoretical prescriptions to ensure that these intended meanings are incorporated into organizational behaviour (Smerek, 2011). Recall that Cornelissen (2012) found that social accountability pressures condition the sense that an individual makes. For my research, this finding suggests that, where there is a shared awareness and impetus for change in declining organizations, sensemaking will result in a collective understanding, which could lead to faster turnaround. In contrast, if individuals have no knowledge of others' expectations, then organizational members will make sense according to their own positions and past experiences, which could result in fragmented understandings and turnaround efforts. Cornelissen does not address the potential for accountability to provide assurance that the meanings obtained from sensemaking and sensegiving are acted on. Neither does Cornelissen address the potential to improve the quality (i.e., plausibility) of the shared meanings constructed in the presence of accountability.

Accordingly, the second contribution of my research is my explication of accountability as an important adjunct to the theoretical perspectives of sensemaking and sensegiving. I show that accountability disciplined the meanings constructed and communicated by organizational members and provided assurance that these meanings, derived from sensemaking and sensegiving, were incorporated into organizational behaviour. Unlike the extensive collection of research on external forms of accountability, empirical demonstrations of accountability within an organization are rare. Accordingly, my research responds to calls for more careful examination of accountability within organizations by adding a rich account to existing empirical work (e.g., Ahrens, 1996; Ahrens & Chapman, 2002; Johansen, 2008a, 2008b, 2010).

My research findings also extend to practitioners and researchers who are uncertain of the lasting influence of NPM or are unconvinced of the benefits of using private sector practices in public sector organizations. HealthCo adopted a variety of practices more commonly seen in the private sector. Early on, HealthCo made significant improvements to transparency, accountability, and stakeholder engagement. Later in HealthCo's performance turnaround, leaders initiated strategic planning, formalized communication processes, and established expertise in change and project management. HealthCo's adoption of these practices during turnaround provides insights to NPM proponents suggesting that public sector organizations can benefit from adopting private sector practices. Though criticized extensively (e.g., Humphrey & Miller, 2012; Lapsley, 2009; Tremblay, 2012), NPM doctrines are expected to be valuable to any public sector organization. I provide evidence that NPM doctrines are particularly valuable in an organization experiencing decline and pursuing a turnaround.

In sum, my research suggests that a combination of multidirectional accountability relationships and various mechanisms of accountability fulfills an important role in assuring that the collective meanings derived from sensemaking and sensegiving are incorporated into organizational decision making and action. Given the critical condition of organizations in decline, accountability improves the meanings and understandings obtained in sensemaking and sensegiving by enacting a higher threshold than merely being plausible so that organizations do not falter beyond their breaking point.

Table 3.1 – Seven properties of sensemaking

Property	Description
Grounded in identity construction	Individuals must make sense of things for themselves before they make sense with others (i.e., collectively as an organization). An individual makes sense according to his or her own needs and past experiences.
Retrospective	Although sensemaking is ongoing, individuals make sense of events that have occurred in the past. What is unfolding at the present moment will affect what is discovered about the past.
Enactive of sensible environments	Cognition and action are inescapably bound together, and, thus, individuals are creating the very environments they are attempting to understand.
Social	Although sensemaking necessarily begins at the individual level, it ultimately becomes a collective organizational process that is contingent on socialization and interaction. A common language, social interaction, and interpretation are the mediums to achieve shared meaning and understanding.
Ongoing	Sensemaking has no starting point and no ending point. To make sense, "people have to chop moments out of continuous flows and extract cues" (Weick, 1995, p. 43), but action and decision making are ongoing while people make sense.
Focused on and by extracted cues	Since there is an infinite number of phenomena available for sensemaking, the particular context (e.g., decline) affects what cues become salient for extraction and how the cue is factored into sensemaking. Importantly, what individuals extract determines what they see, what sense they make, and how they act next.
Driven by plausibility	The goal of sensemaking is not accuracy but plausibility; "the sensible need not be sensable" (Weick, 1995, p. 55). Though the meanings that emerge from sensemaking and sensegiving needn't be accurate, they should be congruent with the organization's goals.

(Sources: Maitlis, 2005; Weick, 1988, 1995, 2010; Weick, et al., 2005)

Table 3.2 – Evidence of HealthCo's decline and turnaround

Timeline boxes: Onset of Decline | Investigator Appointed | Supervisor Appointed | Turnaround Plan (3 yr)

	2005	2006	2007	2008	2009	2010	2011	2012
Working Capital (Deficit)								
As a % of Total Assets	7%	(14%)	(16%)	(14%)	(19%)	(20%)	(9%)	0%
Adjusted for Restricted Cash								
As a % of Total Assets	Not Available	Not Available	(26%)	(27%)	(34%)	(30%)	(22%)	(11%)
Expenses								
As a % of Revenue	100%	103%	104%	107%	106%	102%	98%	96%
Growth over Prior Year		8%	8%	9%	4%	2%	2%	2%
Surplus / (Deficit)*								
As a % of Revenue	0%	(3%)	(4%)	(7%)	(6%)	(2%)	2%	4%
Growth over Prior Year		580%	49%	121%	(10%)	(73%)	(230%)	133%
Current Ratio	1.28	0.61	0.54	0.64	0.54	0.51	0.73	1.02
Cost Per Weighted Case								
Increase over Prior Year	Not Available	9%	12%	12%	3%	(10%)	1%	1%

Additional Information:
- In recent years (2004), government funding had increased as much as 19% in one year, demonstrating the government's prior willingness to freely fund deficit spending and the point at which HealthCo started accumulating significant deficits.
- HealthCo received base funding increases in 2010 and 2011.
- HealthCo also received some one-time funding payments, which have been removed to show the full extent of decline (denoted with *).
- To help with its decline, HealthCo received significant one-time funding from the RHA in 2009 and 2010 to fund capital investments.
- More than anything, HealthCo perceived itself to be "chronically underfunded" (RHA-CEO 10) and truly believed this to be the case.

Notes:
- The financial information presented is limited and at a high level of analysis to maintain the confidentiality of the participating organization. I include only an excerpt of the years analyzed, mainly to provide evidence of HealthCo's decline and the beginning of its performance turnaround.

Table 3.3 – Interview participants

#	Job position	Date	Length (minutes)
1	Chief Operating Officer (COO)	2/22/2013	60
2	Chief Financial Officer (CFO)	3/25/2013	80
(1)	COO	4/2/2013	75
3	Performance Management Director (PM Director)	4/26/2013	65
4	Program Director	5/17/2013	35
5	Program Director / Board Director	5/28/2013	40
6	Program Director	6/10/2013	55
7	Board Director / Audit Committee Chair	6/13/2013	50
8	Business Development Director	3/5/2013	60
9	Finance Director	5/28/2013	45
(1)	COO	7/16/2013	30
10	Regional Health Authority: Chief Executive Officer (RHA-CEO)	7/30/2013	70
(1) 11 12	COO Chief Nursing Executive (CNE) * Chief of Staff / Board Director (COS) *	5/14/2014	35
13 14 15 16	Regional Health Authority: Chief Operating Officer (RHA-COO) Performance Management Director (RHA-PM Director) Financial Analyst Data Analyst	5/15/2014	60
(11)	Chief Nursing Executive (CNE) *	6/3/2014	50
(12)	Chief of Staff / Board Director (COS) *	6/26/2014	40

Notes:
- Except where noted, participants were all employees of HealthCo.
- Asterisk (*) denotes a member of the investigation team.

Table 3.4 – Empirical examples of sensemaking and sensegiving with embedded accountability

Property	Empirical evidence
Grounded in identity construction	▪ Realization of HealthCo's decline, dismissal of key leaders and removal of the board of directors were all shocking events that threatened individuals' existing identities. ▪ One-on-one meetings between employees (individually and in groups) and the CEO provided the CEO with opportunities to reduce panic and plant initial seeds of change ("speed dating" performed a similar function). The CEO was able to help employees understand HealthCo's decline and begin to highlight a viable turnaround plan that would require employee involvement. These meetings provided helpful cues that shaped more productive individual sensemaking. These interactions also established various relationships where **accountability** would be invoked going forward. ▪ The newly hired CEO established traditional forms of hierarchical **accountability** (with C-suite executives and board directors) and non-traditional **accountability** relationships (horizontal or upwards within the organization; with patients beyond the organization). ▪ Instituting new mechanisms of **accountability** (e.g., through performance agreements) aligned individual sensemaking processes with improving performance.
Retrospective	▪ Key retrospective activities used by organizational members include the CFO's deconstruction of prior year financial statements in order to understand the past as well as the comprehensive cleansing exercise the performance management team engaged in to review HealthCo's existing accounting system and understand prior cost allocations and spending habits. ▪ Understanding the past through these activities was critical. By redefining their understanding and perception of the past, organizational members are able to create order, reduce concern, and construct a basis on which to make decisions and pursue a performance turnaround.
Enactive of sensible environments	▪ Though sensemaking is always ongoing, formalized opportunities to conduct sensemaking spanned from HealthCo's realization of decline through to turnaround. If organizational messages constantly contain turnaround-related content and indicators of performance progress, organizational members' actions will more closely align to the turnaround plan. ▪ Embedding **accountability** and establishing organizational members' comfort for invoking **accountability** from other employees (at any level) ensures that careful management of decline and pursuit of turnaround remains at the forefront and guides decision making and behaviour.
Social	▪ Though the CEO planted early cues to reduce panic and shape HealthCo's recovery, a number of large-scale forums were used to facilitate collective sensemaking and for executives to sensegive and persuade organizational members of key messages. These included brown bag lunch forums, town hall meetings and a formal launch of HealthCo's turnaround plan. ▪ Respondents felt that accounting became a common language through which organizational members were able to engage with HealthCo's performance, discuss and monitor key metrics, and require others **to account** for their behaviour and HealthCo's turnaround.

Ongoing	▪ Rather than provide a single forum where organizational members would have an opportunity to make and give sense, HealthCo executives facilitated various opportunities to make and give sense at specific points in time and as needed (examples already noted such as speed-dating and town halls) while other opportunities were instituted for more continuous sensemaking/sensegiving (e.g., regular performance meetings, use of red/yellow/green performance metrics, performance agreements with managers and employees, increased information on HealthCo's website and intranet). The latter continuous examples helped embed **accountability** at HealthCo. ▪ Instances where HealthCo executives formally instituted opportunities for sensemaking/sensegiving should be considered in addition to those processes that core sensemaking theory suggests are always ongoing.
Focused on and by extracted cues	▪ HealthCo executives' intentional efforts and formal interventions to enable and guide sensemaking/sensegiving while also embedding diverse forms of **accountability** all helped focus organizational members' attention and effort on managing decline, maintaining persistence, and working together to improve performance. ▪ Recognizing that hospitals face a permanent struggle between providing quality patient care and being fiscally responsible, patient advisors were introduced to maintain balance. Executives knew they would face significant pressure to reduce spending and control costs because of HealthCo's significant deficit. Patient advisors were introduced to hold HealthCo **accountable** to not only maintain but also improve the standard of patient care. ▪ The assignment of a supervisor to HealthCo also helped hold organizational members' **accountable** to improving financial and nonfinancial performance metrics.
Driven by plausibility	▪ The CFO's sensemaking exercise was reviewed for neither reasonability nor accuracy. Instead, the purpose was to attain a plausible understanding—this is, one that is both sensible and aligned with HealthCo's goals—such that executives' questions and concerns were addressed to a necessary extent, thus making them feel comfortable and empowering them to move forward. ▪ Rather than permit HealthCo to pursue any number of recovery paths, potentially leading to further decline, the RHA and Ministry held HealthCo's sensemaking and sensegiving processes **accountable** to certain standards by requiring that executives prepare and submit a formal recovery plan and by monitoring achievement of this plan over its three-year duration. ▪ More generally, educating organizational members (of HealthCo's decline and the meaning of accounting metrics), encouraging new **accountability** relationships (e.g., between co-workers, from patients), and creating an environment in which members feel **accountable** to the organization and feel they can hold others **accountable** all help improve what would otherwise be a "satisficing" (and potentially risky) criteria of plausibility.

Appendix 3A – Epilogue: HealthCo's Successful Performance Turnaround

At the time at which I conducted interviews, HealthCo had achieved a performance turnaround. Though executives agree that "there will always be work to do" (COO 1, CNE 11, COS 12), HealthCo was able to accomplish the objectives set out in the turnaround plan without affecting the quality of patient care. Members of the RHA felt that HealthCo had "done extensive work to resolve the situation and achieved, financially, an incredible turnaround" (RHA-COO 13). HealthCo was able to improve working capital much sooner than expected (which, in fact, was not part of the three-year plan); users became confident that financial statements reflected "the true reality" (RHA-COO 13); and, overall, the organization experienced "a cultural shift towards performance management" (RHA-CEO 10).

Respondents felt that HealthCo's recovery was largely due to the ways in which accounting was used to make sense of the circumstances and the comprehensive nature of accountability that was embedded across the organization. Accounting was seen as the language through which a number of disparate groups were brought together. This is in stark contrast to respondents' prior descriptions of key relationships during the onset of decline when they noted a "fairly large disconnect between administration and the physicians" (COS 12), "a fractious relationship between performance management and finance" (CNE 11), and total separation between the aggregation of data and the interpretation and use of it in decision making (noted by all). As a result, "patient care and quality and safety were almost a separate thing from the finance and operations of the organization—two solitudes" (CNE 11). Nowadays, HealthCo's data are being used in a value-added way. Having been with HealthCo in excess of 20 years, the CNE was best able to highlight the contrast:

> *I think that there has been much greater support offered to the programs in terms of finance and data and better active listening [to] what the managers actually needed as managers of a clinical area to support them in that sense. I think that we have evolved from finance and decision support being somewhat separate departments in the organization to truly being a corporate service and working more with the premise of "we are partners", and what I do within a clinical area has a patient care deliverable, but it is achieved through financial responsibility and ability to really look at efficiency and effectiveness measures.* (CNE 11)

Respondents listed a number of concepts that were once missing but now felt to be commonplace including transparency, engagement of staff, and accountability—and truly holding people to account. Perhaps unsurprising after the analysis in Section 3.5, in the five-year strategic plan that HealthCo organizational members designed and adopted once key performance improvement initiatives were underway, accountability was selected as one of five guiding principles for the organization.

A Field Study of Organizations in Decline:
A Test of Zammuto and Cameron's Typology of Environmental Decline

4.1   Introduction

This chapter empirically tests Zammuto and Cameron's (1982, 1985; Cameron & Zammuto, 1983) typology of environmental decline by examining how organizations manage decline.[48] A significant collection of research examines organizations' behaviours and response strategies during organizational decline; however, the findings vary significantly and are largely inconclusive. In the 1980s, Zammuto and Cameron proposed a typology of environmental decline that urged researchers to consider the *type* of decline faced by organizations and suggested that consideration of their typology would help reconcile existing research.

This study is important for two reasons. First, as evidenced by frequent announcements in the news of employee layoffs, business closures, and recurring financial losses, organizational decline is a contemporary issue and an important topic for inquiry. In addition, recent survey evidence, in which executives indicate they remain very concerned about organizational performance and continue to feel the effects of the 2007/2008 financial crisis and subsequent recession, confirms the importance of continuing to investigate decline (*The Gandalf Group*, 2013; *The Gandalf Group*, 2014). Second, this study brings to the fore a potentially useful typology for understanding and reconciling research into organizational decline. Revisiting

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[48] Several papers contribute towards the typology of environmental decline, particularly Cameron and Zammuto (1983) and Zammuto and Cameron (1982, 1985), within which the core ideas are developed. When I refer to "Zammuto and Cameron" with no publication date, I am referring to these articles collectively.

Zammuto and Cameron's typology of environmental decline provides an empirically based starting point for researchers to consider in future research.

I recruit five private sector organizations and one public sector organization to ensure variation in the dimensions of environmental change and resulting types of organizational decline faced while also providing sufficient richness in organizations' behaviours and response strategies to decline. I conduct 34 semi-structured interviews with key executives including accountants and access an extensive collection of secondary materials including annual reports, financial statements, newspaper articles, and industry reports. I first compose a case study for each organization and then employ Zammuto and Cameron's (1982, 1985; Cameron & Zammuto, 1983) typology to search for fit between the behaviours outlined in the typology and my observations from the field.

I find that organizations' behaviours and, in particular, their strategic responses and outcome emphases generally align with Zammuto and Cameron's typology. When niche size decreased, organizations responded by conducting either domain offense (i.e., to expand existing core activity) or domain defense (i.e., to protect existing core activity), and their decision making became oriented towards efficiency. When niche shape shifted, organizations responded by conducting domain creation (i.e., new activities based on existing skills/competencies) or domain substitution (i.e., new activities with no relevant skills/competencies), and their decision making became oriented towards effectiveness. I also find that domain consolidation, which Zammuto and Cameron expect when niche size is decreasing, is a strategic response that all organizations rely on regardless of the type of decline they face. Zammuto and Cameron's expectations with respect to managements' perceptions and coping tactics also helped explain organizations' behaviours. In contrast, the structural adjustments (i.e., internal changes to organizational form

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and structure) that Zammuto and Cameron identify in the typology did not easily map onto organizations' behaviours.

The key implication is that the type of decline an organization faces is an important factor that influences how it behaves and responds to decline. My research highlights that management's response should be carefully matched to the cause of decline alongside other researchers (Barker & Duhaime, 1997; Levine, 1978; Pearce II & Robbins, 1993; Robbins & Pearce II, 1992; Schendel, et al., 1976; Schoenberg, et al., 2013); however, using Zammuto and Cameron's typology I confirm different patterns of response than external (internal) causes requiring strategic (operational) responses. Researchers ought to carefully consider in their investigations the type of decline—not just whether decline is externally or internally caused but more precise details of the reasons organizations experience decline. If researchers consider this suggestion, they might find that there are more similarities and patterns to organizations' behaviours and response strategies during decline than the current story researchers tell with their conflicting and inconclusive results. Greater convergence of research findings would be of value to researchers in outlining a clearer path for future research and to practitioners as they attempt to manage and respond to decline.

The next section summarizes the current state of research on organizational decline and then describes Zammuto and Cameron's typology of environmental decline. Section 4.3 describes my research methods including the process used to select research sites, approach to interviews, and approach to data analysis. I conclude Section 4.3 with an introduction to each organization and its classification into Zammuto and Cameron's typology. Section 4.4 presents my analysis of each organization's behaviours and response strategies according to the typology. Section 4.5 concludes by outlining the contributions of this research and by discussing the merits

and applicability of Zammuto and Cameron's typology noting any knowledge gaps and unresolved puzzles.

4.2 Context and Theory Development

Various typologies to examine organizations' strategic archetypes have been proposed over the years (e.g., Gupta & Govindarajan, 1984; Mintzberg, 1973; Porter, 1980). Miles and Snow (1978) identified the most widely cited strategic archetypes of defender, analyser, prospector, and reactor strategies. While most typologies contain a particular archetype that would seem useful during organizational decline (e.g., a "defender" concentrates on protecting its current markets), none focuses solely on organizations' responses and behaviours during decline. Given the challenging circumstances of organizational decline, a typology specifically examining organizations in decline could lead to valuable insights.

4.2.1 Current state of research on organizational decline

Organizational decline refers to a "condition in which a substantial, absolute decrease in an organization's resource base occurs over a specified period of time" (Cameron, Kim, & Whetten, 1987, p. 224) and is not avoided, neutralized, or adapted to, putting organizational survival at risk (Weitzel & Jonsson, 1991). Decline creates significant time pressures and resource constraints in organizations (Heine & Rindfleisch, 2013; Weitzel & Jonsson, 1991), which could either prevent or impair the management response to decline. Further, organizational decline is associated with a number of other "dysfunctions" such as increased employee turnover, decreased morale, decreased innovation, increased conflict, and reduced credibility in the leadership (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987; Whetten, 1987). Researchers have also identified that the consequences organizations face due to decline extend

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to external stakeholders including creditors, board directors, and auditors.[49] However, despite recent reviews of research progress on organizational decline (see Heine & Rindfleisch, 2013; Trahms, et al., 2013), researchers continue to emphasize "the need for renewed research on the phenomenon of organizational decline, given the prevalence of the phenomenon in many industries and public sector domains today" (McKinley, et al., 2014, p. 90).

Related to the challenging context arising from decline, researchers have identified various reasons for whether and how an organization responds to potential decline. For example, organizations could ignore or refuse to believe the signals of decline (Weick, 1993); be blinded by prior success (Cahill, 1998); or be unaware of declining performance due to organization size, complexity, or managerial cognition (Gopinath, 2005; Whetten, 1987). In contrast, organizations might become aware of decline but be unable to respond due to inadequate competencies, feelings of uncertainty, increased time pressure, loss of employees, or constrained resources (Barker & Mone, 1998; Galbraith, 1973; Rosenblatt & Sheaffer, 2001). Given the difficult context of decline in which members' continued employment becomes at risk and organizational survival becomes uncertain, researchers have also suggested that decline could motivate organizational members to pursue a performance turnaround (McKinley, 1993).

If organizational members are motivated to manage decline, the various dysfunctions and constraints associated with decline provoke the question of how they might respond. Though sometimes simplified into two general stages of retrenchment and recovery (Bibeault, 1982; Robbins & Pearce II, 1992), researchers have sought to more carefully understand the

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[49] Specifically, research shows that important stakeholders (i.e., creditors, board directors, and analysts) tend to withdraw their support from organizations experiencing decline (Adler & Hall, 1996; D'Aveni, 1989; Withers, Corley, & Hillman, 2012). Further, research shows that organizations in decline are at higher risk of audit qualifications (Schick & Ponemon, 1993), going concern qualifications to their audited financial statements (Ponemon & Schick, 1991), and more doubtful assessments of managements' competence and integrity from auditors (McKinley, Ponemon, & Schick, 1996).

management of decline.[50] Possible actions include introducing new products/services or processes, implementing cost efficiencies, retrenching assets, refocusing or expanding core activities and competencies, replacing the CEO or other members of the leadership team and realigning organizational culture (McKinley, et al., 2014; Schoenberg, et al., 2013; Trahms, et al., 2013). Further, a diversified portfolio of responses has been highlighted as advantageous to maximizing the possibility of turnaround (Hambrick & Schecter, 1983; Starbuck, Greve, & Hedberg, 1978). Researchers suggest that the results of such studies remain "empirically and theoretically fragmented" (Trahms, et al., 2013, p. 1277).

The most common conclusion in the organizational decline and turnaround management literatures is that it is crucial for the response to be carefully matched to the cause of decline (Barker & Duhaime, 1997; Levine, 1978; Pearce II & Robbins, 1993; Robbins & Pearce II, 1992; Schendel, et al., 1976; Schoenberg, et al., 2013). If the cause of decline was external or environmental, then the response should be at a strategic level. In contrast, if the cause of decline was internal or characteristic of the organization, then the response should be of a more operational nature.[51] Zammuto and Cameron's typology focuses specifically on external causes of decline and highlights that even the *type* of external change has implications for the management of decline. Furthermore, Zammuto and Cameron's typology suggests a broader response to decline including both strategic and operational changes. Given the uncertainty and instability faced by organizations in decline, a more comprehensive management response seems prudent.

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[50] These studies and many others specifically refer to "turnaround management", which is directly related to the management of decline. Organizational turnaround is defined as an organization's performance recovery following decline (i.e., to stabilize operations and restore profitability) (Barker & Duhaime, 1997; Lamberg & Pajunen, 2005; Pearce II & Robbins, 1993).

[51] Despite being a relatively common conclusion, debate still exists. For example, Trahms et al. (2013) describes the current state of research on operational actions as "fragmented, inconsistent, and without much cumulative theory building" (p. 1294). Trahms et al. note that research has acknowledged the "critical role" (p. 1295) of strategic actions but suggest there is still much to be learned, especially the "interactive effects" of a response strategy (p. 1296), which, again, Zammuto and Cameron's typology facilitates. Given that much research has distinguished externally and internally-caused decline but results are still conflicted, it may be useful to focus on more precise dimensions of these causes of decline (in this study, external/environmental causes).

4.2.2 Typology of environmental decline

I adopt Zammuto and Cameron's (1982, 1985; Cameron & Zammuto, 1983) typology of environmental decline to analyze my research question.[52] Zammuto and Cameron devised a typology that distinguishes four types of decline experienced by organizations (see Figure 4.1). Specifically, the typology examines how two dimensions of environmental change can lead an organization into decline and why organizations experience and respond to decline differently (Zammuto & Cameron, 1985). Consideration of the full typology has been the object of more theoretical than empirical inquiry, but some researchers have tested its core ideas (e.g., usually highlighting just one dimension or quadrant).[53] In this section, I explain Zammuto and Cameron's typology and highlight the behaviours expected of organizations as they relate to each type of decline.

4.2.2.1 Key theoretical terms

I begin by defining key theoretical terms from Zammuto and Cameron's typology. A *niche* refers to the "resource space" in which organizations compete (Hannan & Freeman, 1977; Zammuto, 1988). Organizations in a niche are in competition with each other; they produce the same products/services and, as a result, compete for access to the same resources and inputs to facilitate production (Hannan & Freeman, 1977; Hutchinson, 1957). Likewise, organizations in a niche also compete for consumer demand. Since any resources, inputs, or demand all have upper

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[52] In the 1980s, Zammuto and Cameron developed the typology of environmental decline by integrating the organizational ecology perspective (i.e., natural selection), in which organization survival is determined by inflexible environmental pressures (e.g., Hannan & Freeman, 1977), with the strategic choice perspective, in which organizational survival is the outcome of intentional actions by managers to manipulate the environment (e.g., Child, 1972; Miles & Snow, 1978). Zammuto and Cameron drew on several recent (at the time) cases of organizations facing decline with which the authors were familiar to develop the theory. Given the difficult context of decline and the possibility for a dedicated typology to lead to valuable insights in addition to the fact that the typology emerged in a decade during which the economy was weak and organizations, therefore, commonly faced decline, it is surprising that researchers did not use Zammuto and Cameron's typology. Despite a few papers that offered further conceptualizations—for example, Ferris, Schellenberg and Zammuto (1984) considered the role of human resource management strategies in declining organizations—the typology was not empirically tested or extended.

[53] Each quadrant of Zammuto and Cameron's typology was motivated by a unique literature base (e.g., crisis management, strategic management). Rather than conduct research at the level of this typology, researchers focused on one of the four quadrants and continued progress with their own research traditions. With progress made in each cell, it is necessary to regroup and return to the higher order typology to determine its value in understanding the management response to decline.

bounds, a niche is limited in the number of organizations it can support. This limit is referred to as the niche's *carrying capacity* (Zammuto & Cameron, 1985). Each organization also has a primary activity known as its *organizational domain*, which describes "what it does" (i.e., organizations in the same niche operate in similar domains). Formally, an organization's domain is determined by the products/services it produces, the customer group it serves, and the technologies it employs (Meyer, 1975; Zammuto & Cameron, 1985). When environmental change affects a niche, an organization must respond by strategically repositioning itself in order to remain viable (through domain offense, defense, consolidation, creation or substitution). These and subsequent key terms are defined in Appendix 4A (in the order in which they appear in the text).

4.2.2.2 *Dimensions of environmental change*

The first dimension of environmental change in Figure 4.1 refers to a change in niche configuration—that is, how the niche changes to create environmental conditions that may lead an organization into decline. First, the size of the niche could decrease. This means that the volume of products/services once supported by a niche's carrying capacity can no longer be sustained (Zammuto & Cameron, 1982). Reasons for decreasing niche size include a constraint on key inputs or resources required to offer the product/service or a decrease in consumer demand for the product/service. Second, the shape of the niche could shift. In this case, the types of products/services once supported by a niche's carrying capacity are no longer desired because either consumer preferences have changed to alternative products/services or evolutions in technology have led to product/service obsolescence (Zammuto & Cameron, 1982, 1985).

The second dimension of environmental change in Figure 4.1 specifies the pattern of change with which decreasing (shifting) niche size (shape) occurs. The pattern of change may be

continuous and predictable such that decline arises from a series of gradual changes.

Organizational members facing continuous and predictable change benefit by receiving early

warning signals and, consequently, are able to anticipate the effects of environmental change and

rely on past experience to guide future action (Cameron & Zammuto, 1983). Alternatively, the

pattern of change may be discontinuous and unpredictable such that the onset of decline is

sudden and surprising. Organizational members facing discontinuous and unpredictable change

receive no early warning signals and are not able to anticipate or engage in making contingency

plans. Further, due to the suddenness of the change, organizational members are not able to rely

on past experience as a basis for future action (Zammuto & Cameron, 1982).

These two dimensions of environmental change combine to highlight four types of

organizational decline: contraction, erosion, catastrophe, or dissolution.[54] In the sections that

follow, I describe these four types of organizational decline alongside the behaviours expected

by Zammuto and Cameron.[55] Figure 4.2 summarizes the expected behaviours associated with

each type of organizational decline.

4.2.2.3 Contraction

Contraction is the result of a discontinuous and unpredictable decrease in niche size. The sudden

onset of this type of decline results in immediate awareness from organizational members, who,

as a result of its shocking nature, are expected to define it as a threat. This means members

perceive their organization to be in a negative situation in which they feel a loss of control and

believe performance losses are likely (Chattopadhyay, et al., 2001; Dutton & Jackson, 1987). In

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[54] It is important to note that environmental decline does not guarantee an organization will end up in decline. Faced with such conditions, an organization could actively seek to manage and maintain its existing niche size or parallel the change in niche shape and begin offering these new products/services.

[55] These expected behaviours are referred to as "modal responses" (Zammuto & Cameron, 1985, p. 245). They are more likely to be successful, but success also depends on the unique circumstances and characteristics of individual organizations (e.g., management, organizational slack, domain initiative) (Cameron, 1983; Hambrick & D'Aveni, 1988; Mone, et al., 1998; Tan & See, 2004).

contraction, organizational members have no lead time to respond. However, because they become aware immediately, they employ reactive coping tactics (Zammuto & Cameron, 1982). Decreasing niche size also leads organizational members to emphasize efficiency in their decision making (Zammuto & Cameron, 1982).

In contraction, the typology suggests managers will employ domain defense and consolidation to strategically reposition their organization. Domain defense refers to externally oriented actions (e.g., lobbying) attempting to change the nature of the environment by slowing or reversing reductions to the niche's carrying capacity and, thus, protect what remains of an organization's domain. Domain consolidation is used to review operations so that existing domain activity can be sustained at lower resource levels (e.g., by reducing the size of the organization or removing peripheral activities). The type of structural adjustments (i.e., internal changes to organizational form and structure) is expected to be an elimination of activities, and the scope is expected to be significant (e.g., across-the-board or targeted cutbacks) (Zammuto & Cameron, 1985). These behaviours and response strategies are expected because a discontinuous/ unpredictable decrease in niche size results in a rapid increase in competition within the niche.

4.2.2.4 Erosion

Erosion is the result of a continuous and predictable decrease in niche size. Organizational members are expected to be less aware due to the series of gradual (sometimes imperceptible) changes leading to decline. Based on the same reasoning, Zammuto and Cameron suggest that organizational members will define this type of decline as an opportunity. This means that members perceive their organization to be in a positive situation in which they feel in control and believe performance improvements are likely (Chattopadhyay, et al., 2001; Dutton & Jackson, 1987). Together, these factors imply that organizational members' dispositions and coping

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tactics will be relatively inactive. Similarly to organizations in contraction, organizations in erosion are expected to adopt an efficiency emphasis in their decision making (Cameron, 1983; Zammuto & Cameron, 1982).

In erosion, domain consolidation continues to be a viable response to decline, but domain offense is also expected (Cameron & Zammuto, 1983; Zammuto & Cameron, 1985). Domain offense is used to expand operations and obtain access to more resources despite decreases in the niche's carrying capacity (e.g., diversifying products for existing customers, marketing existing products to new customers) (Cameron, 1983). With respect to structural adjustments, the type of change managers are expected to make is through redistributing or relocating activities—the scope of which is expected to be small, incremental, and focused on fine-tuning organizational form and structure (Zammuto & Cameron, 1985). Due to the more gradual nature of the decrease in niche size, organizational members' behaviours and response strategies are motivated by a slow increase in competition within the niche.

4.2.2.5 Catastrophe

Catastrophe is the result of a discontinuous and unpredictable shift in niche shape. Though organizational members will perceive the change immediately, they are expected to have a confused awareness because the change is not only sudden but also requires a shift away from their existing products/services (Zammuto & Cameron, 1982). These conditions result in members defining decline as a threat, which, as noted, leads to feeling a loss of control and a belief that performance losses are likely. In catastrophe, managers have no lead time to be proactive and limited relevant past experience to rely on since their environment has changed so significantly. As a result, their coping tactics are expected to be performed through experimentation. The shifting niche shape of catastrophe leads organizational members to

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emphasize effectiveness. That is, it becomes more important to question, "what activities should we be performing?" instead of, "are we performing our existing activities as best we can?", which is important in erosion and contraction (Cameron, 1983; Zammuto & Cameron, 1982).

In catastrophe, the only viable strategic response Zammuto and Cameron identify is to replace the existing domain with a new domain through domain substitution. Indeed, a discontinuous niche shift leaves organizational members with neither the time nor the skills required to innovate within their existing domain (i.e., domain creation); they instead enter a new domain where they are unable to leverage existing skills and competencies (Cameron, 1983; Zammuto, 1985; Zammuto & Cameron, 1985). Here, the structural adjustments are expected to be through replacing activities and to be relatively experimental since managers lack experience with the organizational form and the structure required to support the new strategies as well as time to adjust. These behaviours and response strategies are expected because a discontinuous/ unpredictable shift in niche shape results in a decrease in competition as competitors exit quickly and leave few remaining competitors within the niche.

4.2.2.6 *Dissolution*

Dissolution is the result of a continuous and predictable shift in niche shape. Compared to the nearly imperceptible onset of erosion due to its gradual onset, dissolution is more likely to be noticed due to changes in the types of products/services consumers demand (Zammuto & Cameron, 1982). The gradual and predictable nature of this type of decline means that managers will define decline as an opportunity, which, as noted, leads to feeling in control and believing performance improvements are likely. The gradual and predictable onset of decline also means that organizational members have more lead-time, and, hence, their coping tactics are more proactive (Cameron & Zammuto, 1983; Zammuto & Cameron, 1982). As with organizations

facing catastrophe, members in dissolution are expected to adopt an effectiveness orientation (Cameron, 1983; Zammuto & Cameron, 1982).

In dissolution, organizational members are expected to strategically reposition their organization through domain defense (described previously; see also Appendix 4A) and domain creation. Organizational members create new domains since the niche their domain currently occupies is shifting. Specifically, domain creation is used to establish new domains of activity, using existing knowledge and expertise, to supplement an existing domain (Cameron, 1983; Zammuto & Cameron, 1985). Structural adjustments are expected to be focused on adding activities. Further, since the shift is gradual, managers are afforded more time to adjust, so the scope of change is expected to be based on a careful search and evaluation of alternatives rather than the experimental adjustments noted in catastrophe (Zammuto & Cameron, 1985). In dissolution, the niche experiences a moderate increase in competition since managers do not exit quickly but, instead, try to survive in their existing niche for a short time.

4.2.3   Summary

In summary, "the interactions among organizational characteristics, perceptions, actions, and environmental conditions will affect the type of decline that each individual organization within a population experiences" (Zammuto & Cameron, 1985, pp. 244-245). Further, Zammuto and Cameron (1985, p. 232) suggest that "the value of the typology lies in its ability to explain why differences exist in the population dynamics and organizational behaviour that are observed" when faced with different dimensions of environmental change. Given the prevalence of organizational decline, it is both timely and useful to examine why and how organizations experience and respond to decline differently with the lens of a typology not previously used to examine these issues.

4.3   Research Methods

Management theorists have encouraged scholars to place greater emphasis on theory testing in their research agendas (e.g., Colquitt & Zapata-Phelan, 2007; McKinley, 2010; Miller & Tsang, 2011). For example, McKinley (2010) criticizes the "current (over)emphasis on new theory development" (pp. 58–59) and recommends that researchers reallocate their efforts towards a "rejuvenation of emphasis on incremental theory testing and replication" (p. 63). In testing Zammuto and Cameron's typology of environmental decline via a cross-sectional field study, my aim is to confirm its validity by determining the degree to which it applies in an empirical study (Colquitt & Zapata-Phelan, 2007; McKinley, 2010). Following other researchers, I will evaluate Zammuto and Cameron's typology by its ability to explain the variance in a criterion of interest (Bacharach, 1989)—that is, of organizations' behaviours and responses to decline. Cross-sectional field studies are appropriate when "there is significant extant theory but doubt or disagreement about either the nature of the constructs on which the theory is built, the relations among these constructs, or their empirical interpretation" (Lillis & Mundy, 2005, p. 120). The research methods I describe next are intended to facilitate sufficient depth of analysis in each organization and, importantly, the required breadth to facilitate observations and discussions of each of the four types of decline.

4.3.1   Site selection

I select organizations according to principled steps established in prior research. First, I identify possible research sites according to key signals of decline observed in Canada's major newspapers (e.g., layoffs, cost cutting) or as referred to me by personal contacts familiar with an organization experiencing decline. Second, I analyze multiple years of financial statements for each organization to confirm the occurrence of decline through decreases in key ratios that last at

least two years. Third, I review a series of other documents (e.g., annual/quarterly reports, industry information) to further understand and contextualize each organization's experience with decline. Finally, I arrange an initial interview to confirm what I have learned about the organization and to collect the interviewee's perceptions of their organization's performance. Refer to Table 4.1 for further details.

As I identify and confirm research sites, I avoid organizations facing bankruptcy since I expect members of such organizations to behave differently as they reorganize or determine their business model is no longer viable. Following prior research (D'Aveni, 1989), I also avoid relatively new (i.e., less than nine years old) and small (i.e., less than $100 million in revenues) organizations since research has shown such organizations to have a higher propensity to fail (Baum & Shipilov, 2006; D'Aveni, 1989), which could affect their decision making and behaviour. This process yields five private sector organizations and one public sector organization in which to test Zammuto and Cameron's typology.

4.3.2 *Interviews*

I conduct 34 interviews with the organizations' key decision makers over a 15-month period throughout 2013 and 2014. Because I focus on the use of accounting in Chapter 2, my list of interviewees includes a high proportion of organizational members with accounting expertise (see Table 4.2 for details of interviews conducted). This is a benefit to my study because, as key information processors and decision influencers, accountant respondents are especially familiar with their organizations' behaviours and response strategies. Interviews are semi-structured and average 50 minutes in length. All interviews are conducted face to face, and all but six are

recorded.[56] I personally transcribe each interview and review it carefully for accuracy. I also send a copy of the transcript to each interviewee for corrections or clarifications.

My approach to interviews is to keep my own words to a minimum and instead gain the interest and trust of participants so they speak openly and at length of their organization, their perceptions of their organization's challenges, and their explanations of their organization's efforts to respond to decline. In the first part of each interview, my focus is to understand the organization through the interviewee's eyes and ensure I have a detailed understanding of the performance challenges faced as well as the behaviours and actions taken in response. Though my focus in the second part of each interview is to understand the role of accounting, interviewees discussed at length the behaviours and responses of the organization beyond a purely accounting focus (e.g., what revenue-generating or cost-cutting changes were made).

4.3.3   *Theory development and data analysis*

Before entering the field, I equipped myself with a "toolbox" of theories that could become relevant to my research question. Upon entering the field, I began to search for and test theories that appear to be most helpful in understanding the data. Ultimately, I identified Zammuto and Cameron's typology as a useful lens with which to construct significance during my first case study of a public sector organization.[57] Having identified this typology early on, I was able to use

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[56] For two interviewees who decided not to be taped and in four instances in which I did not ask permission to record the interview (because they were preliminary interviews intended to recruit an organization that evolved into discussions relevant to this study), I took notes during the interviews to capture their responses. I prepared a question guide with a significant amount of white space in advance, recorded as many comments as possible in shorthand, and made a deliberate attempt to confirm responses with interviewees so that I was able to confirm my note-taking.

[57] In fact, I identified Zammuto and Cameron's typology for the study described in Chapter 2 where I investigate whether and how organizations leverage management accounting to manage decline. Both dimensions of environmental change were useful for classifying the six organizations in Chapter 2 into the type of organizational decline faced (replicated in Figure 4.3 of this Chapter). Accordingly, early in my theorizations, I expected both dimensions (hence, all four types of decline) to be useful ways to examine organizations' use of accounting. However, as my theorizations progressed, I discovered that the use of accounting only differed with one dimension of environmental change. Since the four types of decline were still relevant to the organizations I recruited and appeared to be a useful lens to describe the strategic responses and other behaviours of these organizations—what Zammuto and Cameron intended their typology to explain—I analyze these organizations' responses and behaviours according to the full typology in this chapter.

it to confirm and refine my interview questions and, importantly, to analyze respondents'

narratives as interviews progressed and upon composing a case study for each organization.

My data analysis proceeded with repeated analyses of each individual case study,

searches for similarities and differences between case studies, and identification of patterns

emerging from the data alongside key themes in the typology. I remain alert to anomalous

observations and note them in my analysis in Section 4.4. My aim is two-fold: (1) to determine

the plausibility of Zammuto and Cameron's typology and whether it captures the complexity and

heterogeneity of how organizations behave and respond to decline (i.e., theory illustration in

Keating, 1995) and (2) to refine the typology to make it amenable to broader scale tests (i.e.,

theory specification in Keating, 1995), thus highlighting a helpful way for researchers to

examine decline.

In addition to interviews, other documents that inform my analysis include: (1) field notes

taken after interviews and during opportunities to conduct observation, (2) hundreds of

newspaper articles, (3) dozens of annual reports and financial statements, and (4) company- and

industry-specific information. To maintain the organizations' anonymity, I do not cite these

materials in my analysis; however, they were critical to helping me construct a case study for

each organization.

4.3.4   Introduction to case sites and classification into Zammuto and Cameron's typology

In this section, I introduce each organization and the various challenges they faced leading to

perceived decline. Refer to Table 4.3 for high-level descriptive data of each organization

(consistent with protecting the anonymity of each organization) and Table 4.4 for evidence

supporting the contention that each organization was in decline. Based on the details of each

organization's experience with environmental decline, I classify them into Zammuto and

Cameron's typology (see Figure 4.3) according to (i) the type of change in niche configuration (i.e., decrease in niche size or shift in niche shape), and (ii) the pattern of change (i.e., continuous/predictable change or discontinuous/unpredictable change). In this section, I briefly introduce each organization and then focus primarily on explaining its classification into the typology. Refer to Chapter 2 for more detailed descriptions of each organization's specific experience with decline.

4.3.4.1 *AutoCo*

AutoParent is a public company listed on the Korea Exchange operating in the auto parts and equipment industry. I obtained access to AutoCo, one of AutoParent's 11 subsidiaries. AutoCo manufactures, sells, and distributes PartX for automobiles at its two production plants. AutoCo is affected by the cyclical nature of the automobile industry, which is associated with a range of economic and social factors (e.g., consumer spending and preferences, oil supply and gasoline prices, environmental issues). As a result, declines in sales, production cutbacks and shutdowns, and labour issues at AutoCo mirror the automotive industry.

AutoCo faced contraction (see Figure 4.3). Though the automobile industry is customarily deemed to be cyclical, the 2007/2008 financial crisis and subsequent recession combined with the crisis in the automotive industry resulting in government bailouts for two of the top manufacturers in North America resulted in unprecedented performance challenges for AutoCo. The carrying capacity of the niche in which AutoCo operates decreased significantly: Canadian automotive industry sales decreased from a peak of $120 billion to $53.5 billion in 2007 (the lowest level since 1992) while North American vehicle production levels decreased from 15.1 million units in 2007 to 8.6 million units in 2009 (*McKinsey*, 2012). The automobile industry was "on the brink of collapse" (*The Financial Crisis*, 2013, p. 22), which led AutoCo to

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face decreases to its niche size beyond those predicted and discontinuous compared to ordinary cycles in the industry. Thus, the environmental change that led to AutoCo's decline was a discontinuous and unpredictable decrease in niche size.

4.3.4.2 *AgriCo*

AgriParent is a public company listed on the New York Stock Exchange operating in the fertilizers and agricultural chemicals industry. AgriParent has two business units. I obtained access to AgriCo, the unit that mines a single product, ResourceX, at several sites. AgriCo is a commodity-based business. In commodity markets, intense competition usually results in organizations competing primarily on price, leading to low profit margins. In the case of AgriCo, the organization is involved in a marketing and distribution joint-venture (responsible for the logistics of all ResourceX shipped outside of North America) with its two main competitors in North America. This cartel-like agreement means that AgriCo is a price-taker and, hence, focuses mainly on cost. In addition to competing in a commodity market, AgriCo's key customer category of crop growers are also commodity-based, which means that AgriCo's industry suffers when farmers experience variable grain prices, poor crops, and difficult weather. With these various factors beyond its control, AgriCo is known to suffer downturns in business.

AgriCo faced erosion (see Figure 4.3). The carrying capacity of the niche in which AgriCo operates decreased to 2007 levels due to a combination of reduced demand, delayed purchase contract negotiations with major buyers, and a significant reduction in fertilizer subsidies in India ("Odlum Brown," 2013; "TD Economics," 2014). Though the decrease to AgriCo's niche size was significant, respondents at AgriCo did not perceive the pattern of change to be surprising. The VP Operations (who had been with the organization for more than 30 years) noted that "[he'd] seen these fluctuations many, many, many times" and stressed that

"the fundamentals of the business didn't change" (VP Operations 20). AgriCo benefits from the relative predictability of residing in a commodity market into which future product can be sold at a predetermined price. The use of futures and hedging as well as global agreements among major competitors provide stability since price and production levels are predetermined. Further, while ResourceX prices used to be extremely variable (ranging from 50 to 300 percent of current price), they have become relatively more stable since 2010 (ranging from 100 to 150 percent of current price). Thus, the environmental change that led to AgriCo's decline was a continuous and predictable decrease in niche size.

4.3.4.3 *MiningCo*

MiningParent is a public company listed on the OMX Stockholm Stock Exchange. It operates in the metal and mineral mining machinery and equipment industry. MiningParent has four general business areas that manufacture industrial tools and equipment. I obtained access to MiningCo, which operates a production plant belonging to one of MiningParent's business units. MiningCo manufactures and markets tools used with mining exploration equipment. MiningCo's performance closely mirrors business cycles experienced in the mining sector since the first activity mining companies cut in downward cycles is exploration leading to corresponding decreases in orders for mining tools at MiningCo.

MiningCo faced erosion (see Figure 4.3). The carrying capacity of the niche in which MiningCo operates decreased because of a 41% (29%) decrease in Canadian (global) mineral exploration spending in 2013 (*SNL*, 2013; *SNL*, 2014). Though this resulted in a significant decrease in MiningCo's niche size, organizational members have access to rich industry information by following exploration activity, mining industry cycles, and steel industry cycles. As a result, the pattern of change in the environment was relatively predictable, especially since

decreases to purchases of MiningCo's tools lag behind changes to exploration activity. Organizational members described the decrease to carrying capacity as a trend they had been following and expressed that they were not surprised. Further, reflecting on the market intelligence MiningCo is able to access, the CEO noted, "it's very predictable actually". Thus, the environmental change that led to MiningCo's decline was a continuous and predictable decrease in niche size.

4.3.4.4 *HealthCo*

HealthCo is a public sector organization operating in the healthcare facilities service industry (i.e., hospital).[58] HealthCo is a leading institution in providing complex-acute and specialty care to patients. Most services are delivered at its main hospital, but HealthCo also services patients at a number of satellite and affiliate sites in its respective catchment area. HealthCo is a research and teaching hospital affiliated with a medical school to help train students and conduct research. HealthCo receives approximately 90 percent of its funding from the provincial government, which is distributed on behalf of the government through a Regional Health Authority responsible for planning, funding, and integrating the provision of healthcare according to geographic regions.

HealthCo faced catastrophe (see Figure 4.3). Throughout the late 1990s and early 2000s, the government cultivated an environment in which spending was encouraged, deficit budgets became customary, and hospitals were routinely bailed out and provided additional funds at year end. Consequently, HealthCo assumed a culture of overspending and accumulated years of

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[58] There are two key differences in this public sector case study compared to the other cases in this research. First, performance metrics are different. Instead of profits, delivering quality patient care is the key performance metric, though it is still very important for hospitals to monitor their finances and achieve a balanced budget. Second, unlike for-profit organizations, which aim to grow revenues, HealthCo is a publicly-funded institution with limited opportunities to seek funding increases or access alternative revenue sources. It is important to note that, while HealthCo is a public sector organization, it still faces some of the same risks as private sector organizations concerning decline and bankruptcy; see, for example, the increasing number of public sector bankruptcies in the news (e.g., "Detroit's bankruptcy," 2014; Wells, 2012).

diverting capital spending to operations. In the mid-2000s, the government made a sudden change to begin enforcing accountability agreements including balanced budgets (HealthCo had previously been able to secure as high as a 19 percent funding increase in 2004 to fund deficit spending). HealthCo executives had not only accumulated a deficit in the current year but also recently submitted to the government an even larger budget deficit for the next year. HealthCo experienced a further shock when the government announced that HealthCo would stop providing ambulatory care and instead shift its service mandate to focus solely on complex-acute and specialty care. This change required HealthCo to shift its primary activity to serve a different niche and created additional resource difficulties since the provision of complex-acute and specialty care is more costly and time-consuming. The onset of both of these government-induced changes was discontinuous and unpredictable, and the latter change shifted HealthCo's niche. Thus, the environmental change that led to HealthCo's decline was a discontinuous and unpredictable shift in niche shape (see Chapter 3 for an in-depth discussion of HealthCo's performance challenges).

4.3.4.5 *MediaCo*

MediaCo is a public company listed on the Toronto Stock Exchange operating in the publishing industry. MediaCo has two key reporting segments—media and book publishing—that include several related business units. I obtained access to the entire corporation. During the course of my study, MediaCo sold one segment to a global competitor and integrated its digital business unit within other units. With its remaining segment, MediaCo produces and disseminates a range of news-related publications, conducts business by providing services related to these publications, and has a variety of joint ventures and equity investments in related businesses.

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MediaCo faced dissolution (see Figure 4.3). The niche in which MediaCo operates shifted because the technologies employed in the publishing industry evolved alongside a related shift in consumer preferences. Beginning in the early-2000s, the introduction of the internet and various digital reading devices led to a shift in MediaCo's product/service delivery mode as consumers shifted from traditional print consumption to digital consumption. Confirming the continuous nature of change, media print consumption decreased from 41 to 29 percent while online consumption increased from 24 to 39 percent from 2004 to 2012 (Sasseen, et al., 2013), and book publishing revenues shifted from print to digital by 5 percent annually from 2008 through 2013 (CEO 21). Thus, the environmental change that led to MediaCo's decline was a continuous and predictable shift in niche shape.

4.3.4.6 *RetailCo*

RetailCo is a public company listed on the Toronto Stock Exchange operating in the department stores industry. As a multiline retailer, RetailCo operates a number of merchandising formats, engages in direct sales, earns revenue from retail-related commission-based businesses, and earns real estate revenue from several joint ventures (still connected to retail).[59] For RetailCo's case study, I obtained access to the entire corporation. RetailCo experienced a period of growth throughout the 1990s and early 2000s leading to stable revenues until 2007/08.

The environmental change that led to RetailCo's decline was a continuous and predictable shift in niche shape in the early years: the introduction of e-commerce resulted in a gradual shift in technologies employed and consumer preferences from brick-and-mortar to online shopping over a ten-year period. However, the pattern of environmental change became

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[59] It might seem that, with such varied revenue lines, diverse store types, and wide range of products/services, RetailCo should benefit from cross-subsidization in which different products/services succeed at different times to avoid or minimize decline. RetailCo has not had much success with any particular segment (even at the department level within stores) to benefit from this, so all of RetailCo is facing decline.

discontinuous and unpredictable as evidenced by (1) repeated failures in RetailCo's transformation efforts (e.g., "recovered" business lines are no longer recovered; multiple new transformation plans have been adopted) and (2) the transition to online sales, which has not remained gradual (e.g., total retail sales in Canada increased 2.9% while total e-commerce sales increased by 16.3% from 2011 to 2012 ("Statistics Canada," 2013)). Though increasing retail sales suggests an increase to the carrying capacity of the niche in which RetailCo operates, the unprecedented number of competitors entering the Canadian retail landscape and the increasing number of retailers willing to ship internationally in recent years has simulated a decrease in niche size. These events, in addition to the extent and persistence of RetailCo's performance challenges, were not anticipated and, thus, led to a discontinuous and unpredictable pattern of change. Thus, RetailCo faced dissolution in the early years of its decline (i.e., continuous/ predictable shift in niche shape) but more recently faces an emergent combination of decline that reflects not only a discontinuous and unpredictable pattern of change but also a decreasing niche size (see Figure 4.3).

4.4   Analysis

Owing to environmental change, all six organizations found themselves facing the consequences and challenges of organizational decline. Accordingly, members of each organization implemented various behaviours and response strategies in alignment with Zammuto and Cameron's typology.

4.4.1   *The management response to decreasing niche size*

4.4.1.1 *AutoCo experiences contraction*

Organizational members at AutoCo faced contraction. Automotive industry sales and production levels experienced an unprecedented decrease, leading to a similar decrease in the market for

AutoCo's automobile parts. This decrease in AutoCo's niche size was beyond what was predicted and discontinuous compared to ordinary cycles in the auto industry.

Consistent with this classification, the events that led to AutoCo's decline established immediate awareness and were defined by executives as a threat to AutoCo's survival. Confirming this awareness and their concern for AutoCo's survival, executives engaged consultants in a viability study to determine whether the organization should remain open. Indicating feelings of threat, the Financial Analyst specified a particular revenue range that was "very difficult to survive in" and noted that the fact that AutoCo's revenues were even lower "would explain how [executives] were feeling then" (Financial Analyst 9).

As indicated in Figure 4.2, organizations experiencing contraction are expected to respond to decline with domain defense and domain consolidation. AutoCo employed domain defense by hiring a consultant to conduct a viability study. Because the findings of this study were presented to key executives of AutoParent and members of the board, it served to activate support from AutoCo's key "legitimizers" (Cameron, 1983, p. 374) and, thus, helped protect the organization from the consequences of further decline. Though the majority of the organizations in this study employed domain consolidation, AutoCo did so to a larger extent (relative to organization size) by shutting down one of three existing production plants. The Controller explained that the leadership had decided to consolidate operations to two plants to "make them more fully utilized" and because it "makes economic sense" (Controller 11) since AutoCo would save more than $500 thousand per year in operating costs. Though not expected in the typology, AutoCo also used domain offense by performing "a lot more customer relationship management" (CEO 10) to retain and increase business with existing customers and to solicit business from new customers. The CEO described that this task was one of his first and primary focuses when

AutoCo's performance started to decline. He mapped out all potential customers within 500 miles, noting that it was "no great epiphany, but [by] doing a little bit of data analysis, [it became apparent that] the plants that we are close to is where we should target" (CEO 10).

AutoCo executives also noted a number of structural adjustments. They instituted a ten percent reduction in the hourly wage rate, which is an example of an across-the-board cutback expected in contraction, but a number of other internal changes were also noted including attempts to increase technology, "lean" processes, and utilize cross-training in any departments that would lead to savings. The CEO also expressed that the engineering and maintenance groups adopted a "MacGyver" approach to their repair spending. Recall that the discontinuous and unpredictable nature of contraction means AutoCo was afforded no early warning signals to respond to decline proactively or gradually. When executives talked about these internal changes as well as the strategic responses employed at AutoCo, they noted that the "cadence" of decision making and action had accelerated significantly, leading them to make such changes in a short time frame following the onset of decline (Financial Analyst 9). This is indicative of the reactive coping tactics expected in the typology.

It is important to note that executives continued to operate in AutoCo's existing domain and, hence, did not attempt to add product/service offerings to diversify revenues. The significant decrease in the carrying capacity of the niche in which AutoCo operates was compounded by a significant fluctuation in foreign currency exchange. The CEO recalled that, prior to this fluctuation, "we could bury a whole bunch of costs into our quotes for our customer and be ten percent inefficient and still look ten percent better than a US-based competitor" (CEO 10). As a result, searches for cost reductions and operational efficiencies became a key priority at AutoCo. Respondents confirmed their emphasis on efficiency through repeated references to "attacking

[our] cost-structure" (CEO 10) and "continuing to improve our operational efficiencies" (Controller 11). In fact, executives devised the mantra, "Closing the Gap," for their efforts to align cost structures with competitors. The Financial Analyst suggested it became an important mantra across the organization to the extent that they "put up banners, 'Close the Gap' banners [in the plant]" (Financial Analyst 9). To facilitate AutoCo's emphasis on efficiency, executives instituted an "Accountability Room"—a room dedicated to displaying large-scale performance scoreboards—where it is mandatory for key managers and employees to meet daily to review performance from the previous day. The range of metrics include, for example, labour and materials efficiency, response time, downtime, scrap and process improvements. The "Accountability Room" was built within the existing space of the manufacturing floor to ensure that key measures of efficiency remain visible.

In sum, the behaviours and response strategies employed to manage AutoCo's decline align with those expected during contraction in Zammuto and Cameron's typology. That is, executives did not attempt to diversify AutoCo's domain, instead attempting to improve conditions within its existing domain. As members became immediately aware, their coping tactics were reactive, and the organization focused on efficiency.

4.4.1.2 *AgriCo and MiningCo experience erosion*

Organizational members at AgriCo and MiningCo faced erosion. The respective industries in which these organizations operate experienced decreases in the volume of product demanded. AgriCo executives felt that a number of factors, including the fact that they compete in a commodity-based market, led to a predictable pattern of change, whereas MiningCo executives believed their access to rich industry information made decreases in their niche size predictable.

Consistent with this classification, AgriCo and MiningCo members appeared to be less aware of their decline.[60] Respondents at both organizations exhibited no significant concerns or heightened emotions with regard to decline but, rather, appeared to have adopted a "business as usual" attitude. For example, a respondent at AgriCo made repeated references to the organization's "wait-and-see-type attitude" (Finance Manager 18), and another stressed that "the fundamentals of the business didn't change" (SVP Operations 19). Respondents at MiningCo shared similar feelings; one explained, "We need a fixed pattern of habits because the efficiencies are coming from that" (CEO 15), and another suggested, "You're really at the mercy of the market" (Finance Manager 12). Comments from respondents at AgriCo aligned with Zammuto and Cameron's prediction that members will perceive decline as an opportunity. For example, the Financial Planning and Analysis (FP&A) Manager stated, "In terms of our commercial outlook, I would say we bias optimistically—consistently" (FP&A Manager 17). Though MiningCo respondents did not make explicit references to perceiving their organization's situation as an opportunity, neither did they appear to perceive decline as a threat.

As indicated in Figure 4.2, organizations experiencing erosion are expected to respond to decline by employing domain offense and domain consolidation. With respect to domain offense, AgriCo executives attempted to increase volumes with existing customers and sought purchase agreements with new overseas customers. Both organizations employed domain consolidation to reduce the size of the occupied domain. Executives at AgriCo closed their smallest mine, instituted a 20 percent decrease in production, and ceased operations at two distribution warehouses. Executives also deferred one-third of planned spending on a multi-billion-dollar expansion project in order to remain focused on AgriCo's core mines. Since MiningCo operates

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[60] I emphasize "less" awareness because respondents did highlight significant performance challenges when they described their organizations' circumstances.

from a single production plant, they cannot easily reduce the size of their domain (e.g., via plant closure) but instead relied on several multi-week shutdowns to decrease production and eliminated the evening production shift. In addition, the key reason MiningCo executives provided for early rounds of layoffs was their need to decrease production and, hence, reduce the size of the organization (later rounds of layoffs were driven by increases in automation). Thus, as expected in the typology—and like AutoCo, which also faced decreasing niche size—neither AgriCo nor MiningCo attempted to introduce new products/services to diversify revenues. Although the typology does not expect that organizations will employ domain offense during erosion, AgriCo executives had been "having conversations with government" (AgriCo, SVP Operations 19) in an attempt to relax the province's tax structure for the industry.

Reflecting the less active behaviour expected of organizations in erosion, I observed little evidence of structural adjustments to AgriCo's and MiningCo's organizational form or structure. AgriCo executives suggested that they were making plans for internal changes focused on reducing costs; however, layoffs were the only observable change to date. In addition to layoffs at MiningCo, which I noted were focused on reducing the size of the organization's domain early on, there were ongoing initiatives to increase automation in order to decrease reliance on costly labour. Reflecting on more recent layoffs at MiningCo, the CEO highlighted that, "when [production] is automated, you get less vulnerable when there are market fluctuations" (MiningCo, CEO 15). Leveraging the predictability of erosion (and, hence, demonstrating some proactive behaviour not expected in the typology), the CEO described a long-term focus on continuing to target automation: "You need to know how to automate and to bring your process to the level where the impact is not dramatic when these types of things are happening" (MiningCo, CEO 15).

Executives at AgriCo and MiningCo needed to implement some strategic responses and structural adjustments because of the fragile state of their organization; however, when they described their intended approach to managing decline, I noted a deliberate plan to be relatively inactive, which aligns with Zammuto and Cameron's predictions.[61] When respondents were asked to describe what factors they were considering or what changes they had noted in response to declining performance, several described a "wait-and-see" approach. For example, the VP Operations described:

> *The biggest thing you've got to do is quit tilting at windmills. You've got to quit reacting to these things. The fundamentals of the business didn't change… And what happens is we start wildly trying to speculate as to what this means and how we need to change our business when really, staying the course is probably the right action….*
>
> *… So my biggest thing to tell you is that what I need to do is to make sure we don't overreact, that we don't zig-zag between both sides of the road as we drive down. We've picked our course. We know our strategy; just stay to it.* (AgriCo, VP Operations 20)

Relatively inactive coping tactics were confirmed at AgriCo when respondents described the actions and responses of their direct competitors as far more active and intentional (e.g., buying ports, building storage facilities, partnering with key players). Respondents at MiningCo told a similar story; it seemed that downturns and challenging times were accepted as business as usual, and minimal active effort was expended to assess or manage the circumstances. For example, some of the initiatives respondents identified (e.g., automation) were highlighted as not being specific to decline but, instead, were an ongoing initiative.

To manage decline when niche size is decreasing, organizations must increase efficiency and reduce costs in order to improve their ability to compete. During interviews, respondents at both organizations made repeated references to their intentions to increase efficiencies and

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[61] I acknowledge that identifying AgriCo's and MiningCo's behaviour as inactive seems to contradict the previously described strategic responses and structural adjustments. However, compared to the extensive strategic responses and structural adjustments described by organizations facing other types of decline, AgriCo and MiningCo were relatively inactive. For example, the mine that AgriCo closed represented less than one percent of annual production. Further, when respondents were describing the overarching theme of how they had managed decline so far and how they intended to do so going forward, executives at both organizations made specific comments that highlighted their actual intention not to actively respond.

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reduce costs—what Cameron (1983) refers to as "doing things right" over "doing the right

things" (p. 363). At MiningCo, the CEO reflected on how times are different because of

decline—"today is more cost-focused"—but later tempered this statement by suggesting, "We

are always very cost-conscious, not only when there's a crisis" (CEO 15). The Finance Manager

suggested, "We're trying to preserve and cut costs, you know, be more cost conscious, be alert to

more issues." At AgriCo, the FP&A Manager described a similar phenomenon:

> *I guess we are defining what we are, and so I think there is a big faction of [AgriCo] that*
> *would like to say, "The number one focus is low cost production." I think that people*
> *understand that this is a commodity business and so everyone has their highs and lows,*
> *and if you are going to survive, you need to have a low cost structure. So that's a*
> *continuing mantra in the background, and that limits I think the kind of resources that we*
> *have on a permanent basis.* (AgriCo, FP&A Manager 17)

Executives at AgriCo coined the mantra, "Competing on Cost," to refer to their intentions to seek

efficiencies and reduce costs. This efficiency emphasis is particularly important for organizations

in erosion since they are not expected to diversify products or enter new domains.

To facilitate their emphasis on efficiency, similar to AutoCo, executives at AgriCo and

MiningCo implemented large-scale performance scoreboards with the intent to track and display

various efficiency and cost-related measures. However, in part due to the inactive coping tactics

expected in erosion, the extent of adoption and actual use of these scoreboards was limited. In

both organizations, the scoreboards were neither displayed in high-traffic areas, updated

frequently, nor used in discussion with other organizational members. The fact that

organizational members question the "truth" and "accuracy" of the accounting information

displayed on these scoreboards also explains their lack of use (see Chapter 2).

In sum, the management of AgriCo's and MiningCo's decline aligns with the behaviours

and response strategies Zammuto and Cameron expect from organizations facing erosion.

Indeed, executives did not diversify their organizations' domains but, instead, attempted to

improve conditions within their existing domains. Members appeared to be less aware and relatively inactive compared to those in organizations facing other types of decline but still employed many of the predicted domain responses and demonstrated an emphasis on efficiency.

4.4.1.3 *Summary*

Facing decreasing niche size, in alignment with Zammuto and Cameron's typology, the management response remained focused on improving the realities of each organizations' existing domains—that is, AutoCo, AgriCo, and MiningCo employed only domain defense, offense, or consolidation strategies. Further, and consistent with their focus on their current products, management described relatively pervasive emphases on efficiency. Also in alignment with Zammuto and Cameron's expected behaviours, discontinuous and unpredictable (continuous and predictable) decline onset led to clear (less) awareness, members defining decline as a threat (opportunity), and corresponding reactive (inactive) coping tactics. Though AutoCo respondents described more internal changes than respondents at AgriCo and MiningCo (where many of the changes mentioned were plans for the future and not yet acted on), Zammuto and Cameron's specific predictions regarding type (in particular) and scope (which varied slightly with the pattern of change) did not explain the variance in patterns and, thus, were not as helpful in detecting a pattern of response. Residing in a niche with a decreasing carrying capacity, these organizations are focused on continuing to do what they do but finding better ways to do it; thus, they are reducing costs and becoming more efficient in order to focus on their core and retain their existing niche size.

4.4.2   The management response to shifting niche shape

4.4.2.1 *HealthCo experiences catastrophe*

Organizational members at HealthCo faced catastrophe. The government suddenly changed HealthCo's service provision from ambulatory care to complex-acute and specialty care and stopped permitting deficit spending. This shift in HealthCo's niche shape and change to established spending habits were both discontinuous and unpredictable.

Consistent with this classification, the events that led to HealthCo's decline established immediate awareness but also resulted in some confusion since members were required to significantly change their way of operating (with respect to HealthCo's history of deficit spending and from providing ambulatory care to focusing instead on complex-acute and specialty care). The government appointed a supervisor to investigate HealthCo's circumstances who dismissed the existing board of directors and the majority of the leadership team including the president. This not only led to immediate awareness but caused the changes to be perceived as threat-inducing by organizational members. The lifelong employment public sector employees had come to expect became at risk as HealthCo's survival as an organization became uncertain. Further, the unfamiliarity of a new domain and funding regime left organizational members confused and with little past behaviour to rely on. Reflecting on the realities of HealthCo's decline, a respondent expressed that "everything [was] doom and gloom" (Program Director 6).

As indicated in Figure 4.2, organizations experiencing catastrophe are expected to respond with domain substitution (i.e., exit current domain and replace with new domain) since they do not have time to create related domains. HealthCo altogether exited its existing domain of providing ambulatory care to instead provide care to patients in high-risk and life-threatening

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situations.[62] In addition, HealthCo employed additional domain substitution by beginning to rent

retail space to a coffee shop and host an in-house pharmacy. These domains require expertise

beyond the skills and competencies HealthCo has established through the provision of patient

care. Perhaps because HealthCo executives are limited by the strategic directions they can

pursue, they also employed domain creation strategies leveraging existing competencies within

the organization. For example, HealthCo started offering private rooms at a cost, attracting

clinical trials (with accompanying revenues), and offering other services for which it can charge

a fee (e.g., baby pictures, designer body casts, hearing aids) (COO 1). Though only domain

substitution is expected in response to catastrophe, both substitution and creation activities

helped supplement increasing healthcare costs at HealthCo.

In addition to describing their domain response strategies, respondents noted some

changes to the organization's form and structure. For example, HealthCo executives outsourced

meal preparation, established stronger buying power by connecting with other institutions to

purchase medical supplies and other services (e.g., laundry), and re-arranged the provision of

some services (e.g., a phlebotomy team dedicated solely to drawing blood is faster, makes fewer

errors and uses less expensive equipment) (CFO 2, PM Director 3, Program Director 4). In

descriptions of how some of these internal changes and above-noted strategic responses

transpired, the COO suggested they were "trial-and-error to some extent" in alignment with the

experimental coping tactics Zammuto and Cameron suggest.

Due in part to the sudden change experienced and in part to the fact that HealthCo

members were required to shift to less familiar healthcare services, executives engaged in a

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[62] It can be argued that HealthCo's service provision shift was not a strategic "response" since it was mandated by the government. However, as a publicly-funded institution, HealthCo (a) faces limited opportunities to seek funding increases or access alternative revenue sources; and (b) is constrained by service agreements in regards to the services it provides (i.e., it cannot stop providing a low margin service and replace it with a high margin one). This means that, while patient numbers and their healthcare needs continue to grow alongside operating costs; Ministry funding (which accounts for approximately 90% of HealthCo's funding) is tightly controlled and relatively stable; and hospitals do not have the freedom to move into new domains.

number of processes to reduce the confusion felt across the organization. For example, HealthCo's newly recruited CEO met with more than 2,000 people (managers, frontline workers, patients and other stakeholders both individually and in groups) to collect their perspectives and insights on the hospital's history and their input regarding a direction forward. Similarly, the COO described using "speed-dating"—a collective problem solving approach in which organizational members share ideas for five minutes and then rotate to a new table at the sound of a bell—to collect insights from organizational members. Additionally, the COO and CFO partnered to host brown bag lunches during which leaders and employees were invited to the boardroom to learn how budgets and ministry funding work and how to use other reports and tools. These information-gathering and sharing activities not only facilitated the reduction of organizational members' otherwise confused awareness but also helped them begin responding to decline immediately despite its sudden onset.

Because the government began enforcing accountability agreements including balanced budgets, HealthCo executives were required to remove $30 million of expenses. In addition to some of the strategic responses and internal changes motivated by cost savings, HealthCo executives also engaged in an extensive search for efficiencies. This search led executives to introduce targeted initiatives to garner savings (e.g., the cost of a hand-washing campaign is quickly overcome by savings from improved infectious control) and to remove a number of unnecessary and costly frills (e.g., lunch during meetings, unlimited bottled water). Despite these searches and the earlier-noted activities targeted at efficiency (e.g., restructuring the phlebotomy team), respondents stressed that patient quality and safety remained the key deliverable and emphasis in decision-making. For example, in describing a "balancing act of patient care and

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quality with operational efficiencies", the CFO identified "patient quality and safety as the primary outcome" and decision-making driver. The CFO elaborated:

> *So we were very clear. We never took our plan to a consequence to patient care which resonated with our commitment that we will do, we will provide service at a quality level, but we will do it more efficiently.* (CFO 2)

Though it is clear that efficiencies were required due to the realities of HealthCo's decline and the government's balanced budget mandate, organizational members' emphasis was effectiveness, as expected when niche shape shifts.

In sum, the behaviours and response strategies employed to manage HealthCo's decline—apart from some constraints imposed by the public sector—align with the behaviours and response strategies Zammuto and Cameron expect during catastrophe. As expected in the typology and required by the government, HealthCo exited ambulatory care and replaced this domain with higher acuity care (in addition to other domain substitution and creation strategies). As members became immediately aware, their coping tactics were described as experimental, and the emphasis across the organization was on effectiveness.

4.4.2.2 MediaCo experiences dissolution

Organizational members at MediaCo faced dissolution. Driven by an evolution in digital technologies, consumers shifted from print towards digital consumption, which affected the products MediaCo offers. This shift in MediaCo's niche occurred gradually over a ten year period and, thus, was continuous and predictable.

Consistent with this classification, the longer period over which MediaCo has been in decline suggests that awareness developed more slowly.[63] The CEO described the situation as follows:

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[63] Based on their response behaviour, MediaCo executives are definitely aware of decline. In addition to the longer period of decline, the increasing response behaviour in recent years (noted in interviews and confirmed through annual reports and news

I think it's safe to say there has probably never been a period of time that there's been a greater need to adapt because the changes are significant. People often think of the news media business as changing a lot, and it is, but so is book publishing. So in both of the areas in which we operate, the landscape shifted pretty dramatically, and I think a big responsibility of this job is to navigate through significant change and envision a future that's a prosperous future. (CEO 21)

As expected from organizations facing dissolution, members perceived decline as an opportunity and made frequent references to this effect in interviews. For example, reflecting on the organization's brand, the Segment VP and CFO noted, "We're very fortunate, I think, that the brand names are really recognizable... it's on us to figure out what to do with them, because there is future opportunity" (Segment VP & CFO 22). The CEO confirmed that identifying "growth opportunities [is] a big imperative for us as a company, and using the asset base, we've got to think through those opportunities" (CEO 21).

As indicated in Figure 4.2, organizations experiencing dissolution are expected first to implement domain defense followed by domain creation. Respondents identified just one use of domain defense: A pay-wall was implemented for its digital newspaper in order to protect the organization's core business.[64] Otherwise, comments made by respondents highlighted that MediaCo's intended strategic direction was focused on domain creation:

So, you know, [we're] trying to find new sources of revenue. And within the existing business has probably been the most successful for us. So, leveraging off of what we already do is definitely one of the changes that we have people spend a fair bit of their time trying to figure out. (Segment VP & CFO 22)

For example, executives made investments in a number of joint ventures and investments to supplement the existing publishing domain with ones that rely on related knowledge and expertise. The CEO indicated that MediaCo is "always trying to seed the next stage of growth"

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releases) provides evidence of slowly developed awareness. The more gradual nature of MediaCo's actions (see, for example, Table 4.5, which shows MediaCo's use of layoffs to be more gradual than other organizations') provides additional evidence.

[64] Though paywalls do not, for example, require coalitions of support (e.g., lobbying groups), this externally oriented action was implemented to protect the niche from the effects of further decline. The fact that all major competitors in the niche also implemented paywalls is indicative of domain defense.

and described its range of investments as "an opportunity to put some money in behind somebody that we have some confidence in, in an area we think that could be a growing area".

Though only domain defense and creation are expected during dissolution in the typology, MediaCo's strategic response evolved over the years to also include domain offense, which executives employed to diversify existing products/services and enter new customer markets despite decreasing niche size. For example, MediaCo stopped delivering a free newspaper insert, which had reportedly degraded in quality, to all customers and instead delivered it only upon request and for a fee. "It went from being sort of a profit drain…[to] a pretty important source of profit" (Corporate EVP & CFO 23).[65] Reflecting on the success of this and other examples of domain offense (e.g., determining where to place "free" newspapers to increase readership), a respondent noted:

> *For us, for example, people think, "Well, why do you focus on the newspaper? You should be more focused on digital. Forget the dang newspaper!"*
>
> *We've had some great innovation on the subscription side of our business through guys that run what people would have thought as a very mature and declining area of the business when, in fact, they have managed to sustain it and grow it because they've done some innovative things in the traditional side of the business.* (Corporate EVP & CFO 23)

I also noted evidence of domain consolidation; MediaCo sold a key segment and ceased the operations of some specialty and city newspapers. The more extensive strategic responses employed at MediaCo might be due, in part, to the duration of the organization's decline.

Facing dissolution, MediaCo also implemented a number of structural adjustments in response to decline. For example, executives added a standalone digital division to support MediaCo's search for digital possibilities: "We felt like it would be a good thing to do to set up a separate operation outside of the two core newspaper operations, just to encourage innovation

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[65] Respondents described this initiative as a win on three fronts: (1) MediaCo began receiving revenue for something for which they were not previously charging, (2) production costs were reduced by only delivering it to a small group, and (3) they began delivering only to customers who wanted the insert and not ones that were becoming increasingly frustrated with the waste.

and thinking creatively" (CEO 21). This division was later absorbed into other divisions as digital needs spread across all products/services. The realities of decline also required MediaCo executives to implement changes targeted at cost savings including outsourcing some support functions (e.g., advertising) and automating transaction processes.

Consistent with MediaCo's classification in the typology, I observed evidence of the proactive coping tactics that are expected in dissolution. MediaCo's first digital technology introductions and implementation of the standalone digital division were, in fact, ahead of competitors. The CEO noted that they had begun "trying to adapt and manoeuvre...around 2000 [when] it became clearer and clearer that [ProductX] was going to be under pressure from digital solutions." Since this product did not begin to feel the effects of the digital evolution for another five years, the CEO described the leaderships' efforts as "a nice job of adapting" and stated that ProductX had become "a good solid business for us" (CEO 21).[66] MediaCo executives also hinted at a proactive theme to their planning and budgeting systems:

> *So, the points between what you're actually tracking against your objectives is compressed today versus where it would have been 10 years ago. So you're monitoring more frequently, you're updating your assumptions more frequently and you're probably giving yourself...you're defining what I'll call the "rip cord" more clearly. At what point—you know, and you want to do this in the cold sober light of a time of day when you are not in the heat of battle. You want to do it upfront to say, "Look, these are the parameters which I am going to set that, if I get over these hurdles, I'll keep going. If I fall below these hurdles, I'm going to bail out."*

MediaCo's use of layoffs in early years might also be of a proactive nature; since the early 2000s, MediaCo has downsized anywhere from two to eight percent of employees annually.

As with HealthCo, the realities of MediaCo's decline prevented executives from emphasizing only effectiveness without efficiency. Seeking efficiencies and reducing costs were

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[66] Admittedly, confirming whether tactics are proactive is difficult since "proactive" implies action in anticipation of decline. Relative to other organizations in this study, MediaCo demonstrated an especially active program of domain responses, and as confirmed in annual reports and other external reporting, MediaCo began discussing the oncoming digital revolution early and, likewise, began pursuing activities to adapt early.

acknowledged as important; however, respondents' comments highlighted that their primary

emphasis was on strengthening MediaCo's core and improving existing products/services. The

Corporate EVP and CFO stated:

> *On the one hand, you are seethed with making sure your operating costs are in line with your revenues. You've got this impetus and requirement to constantly be working on your costs and restructuring…. At the same time, you've got to allocate—quite frankly, you've got to allocate people and money to be able to pursue these new ideas, acknowledging that, in their startup phase, they are not going to be contributors. So we have consciously put aside funds, which, you know, are targeted toward development spending in areas that have the ability to generate new revenue streams.*
>
> *[The focus was] doing it in areas that don't affect our consumer-facing, products, sales efforts, etcetera. So we are happy to [lower costs] in areas that don't affect the consumer, don't affect our revenue streams, but just create lower costs for our operations. We are pretty conscious of not doing that where it has a negative customer impact.* (Corporate EVP & CFO 23)

Further, the CEO stated that allocating resources and other changes observed at MediaCo were

"less about efficiencies" and more about "trying to identify the best growth opportunities and

thinking broadly about what you want to be over time and making sure that you don't waver

from that as you are making individual allocation of resources [and] decisions" (CEO 21).

In sum, the behaviours and response strategies employed to manage MediaCo's

decline—apart from executives' more varied domain response due in part to the duration of

MediaCo's decline—align with those expected in Zammuto and Cameron's typology. That is,

MediaCo did not exit its core domain but sought to supplement it by applying related skills and

competencies in new domains. As awareness developed more slowly, members' coping tactics

did exhibit some proactive tendencies, and the emphasis across the organization was on

effectiveness.

4.4.2.3 *Summary*

Facing shifting niche shape, in alignment with Zammuto and Cameron's typology, the

management response remained focused on diversifying each organization's "core" domain by

exploring other domains. Given that either consumer preferences or evolutions in technology shifted away from existing products/services, it is prudent for HealthCo and MediaCo executives to explore new domains with alternate products/services. Further, though, due to the realities of decline, these organizations could not ignore opportunities to reduce costs and gain efficiencies, effectiveness became the key driver of decision-making. Also in alignment with Zammuto and Cameron's expected behaviours, whether the onset of decline was discontinuous and unpredictable (continuous and predictable) led to immediate but confused (slowly developed) awareness, members defining decline as a threat (opportunity), and corresponding experimental (proactive) coping tactics. Both organizations implemented structural adjustments including outsourcing, and MediaCo executives also changed the organizational structure to accommodate the shift towards digital. As I already noted in Section 4.4.1.3, Zammuto and Cameron's distinctions regarding the precise type and scope of structural adjustments are not helpful in explaining the variance in this behaviour. Residing in a niche with a carrying capacity that is shifting to other products/services, these organizations are focused on diversifying the domains they currently occupy and ensuring that effectiveness guides this shift.

4.4.3 The management response to being "stuck in the middle": RetailCo experiences emergent decline

Organizational members at RetailCo faced dissolution in early years as the introduction of e-commerce led consumers to slowly begin shopping online, after which the pattern of change became discontinuous/unpredictable and simulated decreasing niche size. This means that, in addition to dissolution, RetailCo's decline assumed features characteristic of the other types of decline (see Figure 4.3). Consequently, RetailCo's behaviour reflects the behaviours and response strategies expected during other types of decline. In effect, RetailCo's varied response to decline is a classic case of Porter's (1980) "stuck in the middle" strategy—a desire to pursue

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cost leadership and deliver differentiated products/services to the market—a less defensible position than is desired for an organization in decline.[67]

Comments made during interviews, formal transformation plans discussed in annual reports and media remarks made by key executives confirm organizational members' awareness of MediaCo's considerable struggles with decline. Consistent with RetailCo's classification near the middle of the pattern of change continuum, it was not clear whether respondents defined RetailCo' decline as an opportunity or a threat. While some respondents spoke with concern and were forthcoming in noting, for example, that "it's no secret that we're not performing [well]" (VP & Controller 27), others spoke with excitement regarding "opportunities to grow [the] business" (VP Operations 25).[68]

Following RetailCo's initial classification in Figure 4.3, the typology suggests domain defense followed by creation. Respondents did not identify any examples of domain defense but provided several examples of domain creation. Related to its core domain and expertise, RetailCo added new store types (e.g., outlet, specialty) and a commercial sales channel (i.e., marketing appliances to condominium and homebuilders). The VP Operations, reflecting on the commercial sales channel, explained that it was created "to grow our business while maintaining the core" and went on to suggest that, since introducing the channel a couple of years prior, it had "grown significantly and outperformed most of the other categories.... [I]t is really taking off" (VP Operations 25). This highlights the importance of domain creation—supplementing

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[67] Porter (1980) recommends that organizations pursue a single strategy (i.e., cost leadership or differentiation). If more than one strategy is pursued, an organization's position and competitive advantage in their industry will be weakened. Though managers of some organizations may be able to manage a dual strategy, others may not be able to respond flexibly. Referring to this latter scenario as being "stuck in the middle", Porter argues that the profitability and future of an organization will become or remain at risk.

[68] The variation here might also be explained by the fact that RetailCo made several sales of significant assets (e.g., joint ventures, investments, lease terminations) such that cash inflows generated slack to withstand the full effect of decline.

existing domain activity by creating a new domains that draw on RetailCo's existing retail skills/ competencies—when an organizations' niche is facing extensive change.

In addition to RetailCo's use of domain creation, organizational members noted other strategies expected during other types of decline, reflecting the emergent nature of RetailCo's decline. Expected in erosion, RetailCo employed domain offense by dedicating more square footage to departments yielding higher returns, adding new suppliers and product selection to its stores, and focusing on geographic regions with greater potential. Additionally, RetailCo has made significant investments in growing e-commerce.[69] Expected in catastrophe, RetailCo also employed domain substitution by investing in shopping centre real estate, the management of which does not use RetailCo's existing skill set. I also found evidence of domain consolidation; respondents noted a decrease in the number of stores by more than 15 percent in recent years and divestment of some real estate holdings. Summarizing RetailCo's multifaceted domain response strategy, the VP Operations noted, "First we have to fix the basics, then we have to establish the core, and then we have to continue the growth" (VP Operations 25).

With RetailCo's classification in Figure 4.3, overlapping each type of organizational decline, one might expect the organization to exhibit a wide range of structural adjustments differing in type and scope. However, interview transcripts and secondary materials revealed only a few outsourced support services (e.g., IT support, payroll service). As I re-analyzed the data in search of other internal changes, I instead uncovered a comment from a respondent that explains the scarcity of internal change:

> *Now the team can work very hard on improving operational processes within the store, but unless we have the right product in the store, which is purchased by merchants and buyers outside of this team, and we have the right marketing message out there that*

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[69] To clarify, though I also note that RetailCo executives decreased its number of stores (which seems contradictory to domain offense and efforts do more of what the organization already does), these store closures were more than replaced by increased e-commerce traffic and investment in developing RetailCo's website.

drives people to the store, they can't necessarily achieve their financial targets even though they may do all the work within. (VP Operations 25)

This quote, which I corroborated with comments made by other respondents, suggests that executives felt that RetailCo's strategic issues were too significant to risk becoming absorbed in the minor performance improvements expected from internal change.

As a result of the discontinuity and unpredictability of RetailCo's decline in recent years, respondents felt that the time to make decisions had decreased significantly, affecting their coping tactics. Reflecting on the increased time pressures, one respondent described an experimental approach to coping that had become important at RetailCo:

> *When you're in the middle or at the bottom, you just gotta do something because just staying where you're at means certain death so you have to try something, even with imperfect information you have to move forward and hope that it was the right decision, and if it wasn't, you're going to course correct.* (VP Operations 25)

Similarly, respondents expressed that trial-and-error initiatives via pilot testing had become a favoured approach during decline. Though pilot testing is common in retail, executives suggested that it had become particularly valuable to use this conservative approach because of RetailCo's performance challenges and critical state.[70] Otherwise, respondents suggested the alternative was "becoming stuck in—we call it—analysis paralysis" (VP Operations 25). Respondents' narratives also highlighted a reliance on reactive coping tactics, which, like experimental tactics, align with the increased time pressure of decline. The VP FP&A stated:

> *I think, when you are looking at a company as large as we are in so many different categories, businesses, you know, in a transformation, you want to be able to make the right decisions quickly, be nimble, react the way you need to, be tactical. A lot of it is just trying to get better at how we react to certain things, and we have been doing that.*

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[70] I provide an example of RetailCo's use of trial and error that also serves to highlight the extent of unpredictability associated with RetailCo's decline. A transformation plan was first tested in a specific product level. Following its success, "the mandate got broadened from [the product level] to the [department level].... We obviously did that successfully as well, because we were asked to apply a similar transformation agenda to the entire corporation" (VP Operations 25). Not long after this interview (held during the first quarter of a reporting cycle), the successfully transformed product group referenced here had same-store-sales revenue decreases of 4.4% and 9% in the third and fourth reporting quarters.

We can look at a flyer put on by our competitor on Thursday and actually change our entire weekend program around that for the next day. We don't do it, obviously, every weekend, but we have done a lot of things around that in the past, which would have been unthinkable a few years ago. (VP FP&A 28)

These experimental (expected in catastrophe) and reactive (expected in contraction) coping tactics were described as increasingly common during decline. This is consistent with the emergent discontinuous and unpredictable change experienced by RetailCo such that organizational members cannot rely on past experience and are afforded little time to plan a careful response.

Organizational members' efforts to balance effectiveness and efficiency also align with the emergent nature of change. RetailCo's mission statement is based on delivering the best products (quality, innovative, stylish) and reliable service at affordable prices, and key themes drawn from the organization's external reporting indicate an intended strategy of cost leadership and product differentiation.[71] Respondents made repeated references to RetailCo's "merchandising piece" and "value proposition", which were defined by organizational members as "establishing good fundamentals...and making [RetailCo] a compelling place to shop" (VP Communications 26). Though these reference terms reflect an emphasis on effectiveness, respondents also made comments that correspond with the efficiency emphasis expected with decreases in niche size. Efficiencies and costs are priorities in RetailCo's turnaround plan, and, thus, respondents noted that RetailCo "tracks expenses very closely" (VP FP&A 28) and introduced several reports to track the "realization of those savings" (VP & Controller 27).

4.4.3.1 Summary

Facing decline beginning in the early years as dissolution—after which the pattern of change became discontinuous/unpredictable and simulated decreasing niche size—RetailCo employed a

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[71] Paraphrased to protect the organization's anonymity.

variety of behaviours and response strategies. Throughout RetailCo's years of decline, the behaviours and response strategies have evolved from a focus on domain creation and effectiveness to a response pattern that captures all types of domain strategies, various coping tactics, and an ongoing balancing act between effectiveness and efficiency. Recall that early research suggested that a diversified portfolio of responses was advantageous when managing decline (Hambrick & Schecter, 1983; Starbuck, et al., 1978). Though this may explain executives' diverse response to RetailCo's decline, given the duration of the decline faced, it also seems possible that RetailCo is "stuck in the middle" with respect to its pattern of response and, hence, without clear direction for its behaviours and response strategies.

4.4.4 *Zammuto and Cameron's expected structural adjustments*

All of the organizations in this study implemented various retrenchment activities (many noted throughout my analysis; summarized in Table 4.5). These activities are operational or internal in nature and thus coincide with Zammuto and Cameron's "structural adjustment" variable—that is, changes to an organization's form and structure such as reorganization, layoffs, and cost-cutting initiatives—but do not align with their predictions with respect to the precise *type* and *scope* of structural adjustment.[72] These activities are not surprising given that early research on decline suggests retrenchment as the first step of a two-stage model of response for organizations to stabilize their financial position (e.g., Bibeault, 1982; Pearce II & Robbins, 1993; Robbins & Pearce II, 1992). They are important, however, because their use confirms the managers' awareness of their organizations' circumstances (O'Kane & Cunningham, 2012). Further, prior research notes that, in some cases, managers build slack to create a cushion from the environment (Meyer, 1982; Van der Stede, 2000), so it is prudent for managers experiencing

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[72] Domain consolidation is distinct in that it refers to activities intended to strategically reposition an organization including reducing the organization's size, cutting peripheral activities, and retaining the organization's core.

decline to use retrenchment to establish a cushion between the organization and its continued

decline or potential demise.

Although these retrenchment activities do not align with Zammuto and Cameron's

expected behaviours (particularly the *type* of adjustment; e.g., change by deletion or addition),

the extent to which each organization uses retrenchment aligns loosely with their position in the

typology. Generally speaking, organizations facing decreasing niche size employ fewer and less

extensive retrenchment activities than those facing shifting niche shape (see, for example, the

number of activities used at MiningCo and AgriCo compared to MediaCo in Table 4.5). More

specifically, organizations facing erosion—potentially perceived by managers as less concerning

decline since the onset was continuous/predictable and did not require the organization to change

its domain—implement less extensive layoffs (especially AgriCo) and fewer cost-cutting

activities compared to organizations facing discontinuous/unpredictable change or requiring

niche reconfiguration. Respondents described determining these retrenchment activities by

noting that key variables specific to their organization had become out of balance. For example,

a respondent from one organization explained, "We look at the number of headcounts, we look at

our functional cost, we look at the underutilization of our assets or resources—it's about the

machines but also the people. We look at the balance" (MiningCo, CEO 15). The same idea of

balance was expressed by a respondent from another organization: "A lot of the activity that

you've seen over the last twelve months has been to right-size the fixed cost base to be more in

line with the current revenue that we have today" (RetailCo, VP & Controller 27). Though these

retrenchment activities likely extend the time management has to respond strategically, they do

not attend to the specific type of decline (and, hence, do not attend to the cause of decline)

identified in Zammuto and Cameron's typology.

4.5   Discussion and Conclusion

To test Zammuto and Cameron's typology of environmental change, a cross-sectional field study provided me with an opportunity to capitalize on depth of analysis while also offering breadth for comparison across organizations (Lillis & Mundy, 2005). My research highlights that Zammuto and Cameron's typology is useful for studying environmental and organizational decline. Zammuto and Cameron devised their typology to urge researchers to consider the "type" of decline; however, researchers pursued specific dimensions (i.e., continuity or type of change) or types of decline (i.e., single quadrants). I provide empirical evidence that generally aligns with Zammuto and Cameron's prescriptions for how organizations are expected to respond to decline caused by environmental change. The organizations included in my research searched for new domains if their niches shifted, but when their niches decreased in size, they instead tried to improve conditions within their existing domain. These organizations' other behaviours and response strategies also generally align with Zammuto and Cameron's expectations.

Using Zammuto and Cameron's typology to analyze my six organizations, I offer a theory-based explanation for how managers respond to different types of organizational decline resulting from different dimensions of environmental change. The pattern of change dimension distinguishes some of these behaviours and response strategies. Management's awareness and perception of their organization's situation aligned with whether the onset of decline was continuous/predictable or discontinuous/unpredictable. When onset was discontinuous and unpredictable, members appeared to be both more aware and aware more quickly and, hence, defined their organization's circumstances as a threat. In contrast, when the onset of decline was continuous and predictable, members appeared to be less aware and, hence, defined their organization's circumstances as an opportunity. Consistent with the typology, these latter

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organizations implemented their behaviours and response strategies more gradually. For example, MediaCo instituted layoffs continually over several years whereas layoffs at HealthCo and AutoCo were all initiated within a one-year timeframe. Further, the management's coping tactics during decline were also consistent with the pattern of environmental change. For example, respondents at HealthCo and AutoCo, because of the suddenness of the change they faced, described tactics that were reactive or experimental. In contrast, MediaCo described relatively more progressive responses since organizational members felt they had more time to plan and consider actions that might address more issues or improve the organization's future more extensively than merely reacting quickly to a single issue. Less urgency and more gradual change—when organizational members were responsive since they also exhibited a somewhat inactive approach to decline—were also observed at AgriCo and MiningCo due to the continuous pattern of change.

The type of change in niche configuration also distinguishes some organizational behaviours and response strategies. When facing decreasing niche size, AgriCo, MiningCo, and AutoCo employed domain strategies in an attempt to improve the conditions of their existing domain by protecting or increasing the remaining carrying capacity. Efficiency was also observed as a key emphasis management used in their decision making. When facing shifting niche shape, HealthCo and MediaCo employed response strategies in an attempt to find new domains of activity, recognizing the uncertainty of the future of their existing domain. For these organizations, though seeking efficiencies was still important due to the realities of decline, management's key emphasis during decision-making was effectiveness. RetailCo—which first faced dissolution that later became discontinuous/unpredictable and also reflected decreasing niche size—exhibited a range of behaviours and strategic responses in alignment with the

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emergent environmental change it faced. The differences in response to decreasing niche size versus shifting niche shape align with March's (1991) distinction between "exploitation" and "exploration," which is based on the idea of exploiting existing possibilities versus exploring new ones.

These research findings imply that, when decline is discontinuous and unpredictable, the shock drives organizational members to become aware of decline and respond quickly. Further, without any significant discontinuity at the onset of decline, organizational members' pattern of response is more gradual. These research findings also imply that, when decline arises from decreasing niche size, management focuses on improving conditions for their existing domain of activity and, in particular, on efficiency. Further, when decline arises from a shifting niche shape, management focuses on diversifying their products/services and, in particular, decision-making becomes driven by effectiveness. The latter of these two implications means that organizations' behaviours and response strategies focus on either "doing things right" or on "doing the right things" (Cameron, 1983, p. 363).

While many behaviours and response strategies correspond with Zammuto and Cameron's typology, I also highlight a few exceptions. First, I observe that all of the organizations in this study employed domain consolidation (except for HealthCo, which, as a public sector organization, is prevented from reducing its size or eliminating services), which is not predicted for all types of organizational decline but appears to become a key strategy as management becomes aware of the realities and difficulties of their organization's decline. Second, I note that the structural adjustments Zammuto and Cameron suggest—according to type (i.e., change by deletion, redistribution, substitution, or addition) and scope (e.g., substantial, small/incremental, trial-and-error search, or careful search for new alternatives)—are not useful

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for understanding or detecting patterns in managers' internal changes to organizational form and structure. Instead, my patternmaking highlights that management, regardless of the type of decline faced, outsourced some departments or support functions. This could be explained by the realities of decline or might reflect the increasing use of outsourcing in the business environment more generally (regardless of decline). Additionally, my patternmaking highlights that organizations facing decreasing niche size commonly implement automation. This internal change is consistent with these organizations' emphasis on efficiency and intent to continue operating in the same domain by finding better ways to do so.

The organizations I examine in this study, and the behaviours and response strategies their management implements to manoeuvre decline, confirm that the management response to decline is a "more complex and dynamic process" (Trahms, et al., 2013, p. 1278) than acknowledged in past research. Though my research shows that management's response should be carefully matched to the cause of decline alongside other researchers (Barker & Duhaime, 1997; Levine, 1978; Pearce II & Robbins, 1993; Robbins & Pearce II, 1992; Schendel, et al., 1976; Schoenberg, et al., 2013), using Zammuto and Cameron's typology, I confirm different patterns of response than the simple dichotomy of an external (internal) cause requiring a strategic (operational) response. Management's response to decline does not seem to be a matter of retrenchment first followed by strategic action, as some researchers have suggested (Bibeault, 1982; Pearce II & Robbins, 1993; Robbins & Pearce II, 1992), but more about a combination of various behaviours and responses. This corresponds with prior research supporting a diversified portfolio of responses (Hambrick & Schecter, 1983; Starbuck, et al., 1978). The realities of decline and the fact that an organization's future becomes unstable and uncertain motivate management to respond comprehensively, in a sense, trying anything they can to save the

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organization. Unfortunately, a limitation of this research is that some of the studied organizations still face decline, leaving me unable to determine whether a particular pattern of response leads to recovery. Still, my research indicates that more careful examination of key variables associated with decline (e.g., the precise cause or type of decline) will help advance both theory and practice.

Table 4.1 – Steps used to identify research sites

Step 1 – Identify possible organizations

– Review major and local newspapers for organizations that signal symptoms of decline.
– Possible signals include: increasing competition, increasing supply, decreasing demand, decreasing market share, decreasing revenues, increasing costs, decreasing margins, decreasing cash flows, reductions in funding or other restricted resources (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987).
– Retrenchment initiatives (e.g., layoffs, business unit/segment divestiture) can also signal decline but must be interpreted with caution since organizations that are performing well also use retrenchment (D'Aveni, 1989; Hoffi-Hofstetter & Mannheim, 1999). Decline must be involuntary and unintended (versus a strategic choice to downsize) (McKinley, et al., 2014).

Step 2 – Analyze financial situation

– Analyze key ratios and year-over-year changes to confirm the occurrence of organizational decline.
– Possible measures include:
  o Profitability ratios such as ROA, ROE and ROI (decreasing or net loss) must be interpreted with caution since they can be manipulated by altering the denominator (e.g., asset retrenchment makes performance appear better) (Audia & Greve, 2006; Trahms, et al., 2013).
  o Revenue (Cameron, Kim, et al., 1987; Cameron, Whetten, et al., 1987) and net income normalized by GNP (Bruton, et al., 1994).
  o Market ratios such as decreases to EPS (Bolton, 1993) or unmet investor expectations (Morrow, et al., 2007).
  o Liquidity ratios such as current ratio and working capital must be interpreted with caution since they can be manipulated through asset retrenchment (Barker, et al., 2001).
  o Debt ratios such as unused borrowing capacity (equity/debt) (D'Aveni, 1989).
– Measures should have a two-year declining trend (Barker & Mone, 1994; Chen & Hambrick, 2012; McKinley, et al., 2014), and when the decline is longer lasting, the years need not necessarily be consecutive (Wiseman & Bromiley, 1991).
– Extent of decline shown in these measures also varies, ranging from absolute levels (i.e., loss) to a 5% decrease in one year or 20% decrease over three years.

Step 3 – Review other reports

– Review internal and external reports (e.g., quarterly/annual reports, MD&A) to understand the organization's circumstances and confirm recognition of decline.
– Possible signals include:
  o Hiring transformation officers
  o Major restructuring initiatives such as layoffs (ranging from 30 to 60% of employees) or other curtailments (e.g., divestitures of stores, business units/segments)
  o Discussion of other challenges and pressures

Step 4 – Confirm diagnosis via preliminary interview

– Arrange for a preliminary interview (by phone or face to face) to collect an executive's perceptions of his or her organization's performance and verify understanding attained in Steps 2 and 3 (similar approach used in other research; e.g., Hoffi-Hofstetter & Mannheim, 1999).

Table 4.2 – Interview and observation details

#	Job position	Interview date	Length (minutes)
HealthCo			
1	Chief Operating Officer (COO)	2/22/2013	60
2	Chief Financial Officer (CFO)	3/25/2013	80
(1)	COO	4/2/2013	75
3	Performance Management Director (PM Director)	4/26/2013	65
4	Program Director	5/17/2013	35
5	Program Director	5/28/2013	40
6	Program Director	6/10/2013	55
7	Board Director	6/13/2013	50
(1)	COO	7/16/2013	30
8	CEO, Regional Health Authority	7/30/2013	70
--	Observation: Self-Guided Tour of Facilities	N/A	N/A
AutoCo			
9	Financial Analyst (initially a Viability Consultant)	3/14/2013	45
10	Chief Executive Officer (CEO)	4/22/2013	60
--	Observation: Tour of Production Plant	4/22/2013	30
--	Observation: Daily Accountability Meeting	5/23/2013	50
11	Controller	5/23/2013	85
(9)	Financial Analyst	5/23/2013	45
MiningCo			
12	Finance Manager	7/11/2013	20
(12)	Finance Manager	8/9/2013	45
13	Production Manager	8/9/2013	40
--	Observation: Tour of Production Plant	8/9/2013	25
14	Accounting Manager	8/12/2013	25
15	Chief Executive Officer (CEO)	8/12/2013	35

AgriCo			
16	Strategic Business Unit Planning Manager (SBU Planning Manager)	6/15/2013	30
(16)	SBU Planning Manager	8/15/2013	45
17	Financial Planning and Analysis Manager (FP&A Manager)	8/15/2013	65
18	Finance Manager	8/15/2013	30
--	Observation: Tour of Headquarters	8/15/2013	15
19 20	Senior Vice President Operations (SVP Operations) Vice President Operations (VP Operations)	8/16/2013	60
(20)	VP Operations	8/16/2013	45
(16)	SBU Planning Manager	8/16/2013	60
MediaCo			
21	Chief Executive Officer (CEO)	6/5/2013	20
(21)	CEO	7/3/2013	75
22	Segment Vice President and Chief Financial Officer (Segment VP & CFO)	10/21/2013	55
23	Corporate Executive Vice President and Chief Financial Officer (Corporate EVP & CFO)	10/22/2013	45
RetailCo			
24	Senior Strategy Manager	6/5/2013	20
25	Vice President Operations (VP Operations)	4/21/2013	75
26	Vice President Communications (VP Communications)	6/19/2014	35
27 28	Vice President and Controller (VP & Controller) Vice President Financial Planning and Analysis (VP FP&A)	6/20/2014	55
--	Observation: Self-Guided Tour of Various Retail Formats	N/A	N/A

Note: Interview numbers in brackets indicate an interview held with a repeat participant.

Table 4.3 – Details of research sites

Organization[a]	Organization type	Industry	Organization size[b]
AutoCo	Operating subsidiary of a public company listed on the Korea Exchange	Auto Parts and Equipment	> $100 M revenue ~ 500 employees
AgriCo	Operating subsidiary of a public company listed on the New York Stock Exchange	Fertilizers and Agricultural Chemicals	> $3,000 M revenue ~ 3,500 employees
MiningCo	Operating subsidiary of a public company listed on the Swedish Exchange	Metal and Mineral Mining Machinery and Equipment	> $100 M revenue ~ 120 employees
HealthCo	Public sector company	Healthcare Facilities	> $300 M revenue ~ 2,500 employees
MediaCo	Public company listed on the Toronto Stock Exchange	Publishing	> $1,200 M revenue ~ 7,000 employees
RetailCo	Public company listed on the Toronto Stock Exchange	Department Stores	> $4,500 M revenue ~ 30,000 employees

Notes:

a. Confidentiality was promised to participating organizations. Pseudonyms have been used to disguise the organizations, and, where necessary, other details have been generalized to minimize the risk of an organization being identified. Further, I do not reference cities or provinces but note that all of the research sites I obtained access to are located in Canada.

b. These are approximate figures before the onset of decline.

Table 4.4 – Evidence of organizational decline

AutoCo	2002–07	2008	2009	2010	2011–13
Revenue as a % of 2007 Revenue	100%	60%	45–50%	60%	85–90%
Growth over Prior Year		(40%)	(21%)	(26%)	46%
Note: According to EBITDA, AutoCo was ranked in the bottom 10% of AutoParent's businesses.					

AgriCo	2011	2012	2013	2014
Total Revenue as a % of 2011 Revenue	100%	95%	67%	
Growth over Prior Year		(5%)	(30%)	(17%)
Gross Profit as a % of Revenue	46%	47%	27%	
Growth over Prior Year		(2%)	(60%)	(41%)
ResourceX Price as a % of 2011 Price	100%	89%	70%	60%
Increase over Prior Year	34%	(11%)	(22%)	(14%)
Note: Though ResourceX benefited from a price increase in 2011, the price in 2009 was 300% of current price.				

MiningCo	2010-11	2012	2013	2014
Revenue as a % of 2011 Revenue	100%	75%	60%	60%
Growth over Prior Year		(25%)	(20%)	(0%)
Note: A respondent noted that, while 2013 revenues were down 40%, the bottom line was actually off 60%.				

HealthCo	2005	2006	2007	2008	2009	2010
Surplus / (Deficit) as a % of Revenue*	0%	(3%)	(4%)	(7%)	(6%)	(2%)
Growth over Prior Year		580%	49%	121%	(10%)	(73%)
Working Capital as a % of Total Assets	7%	(14%)	(16%)	(14%)	(19%)	(20%)
Current Ratio	1.28	0.61	0.54	0.64	0.54	0.51
Cost / Weighted Case, Increase over Prior Year		9%	12%	12%	3%	(10%)
Note: Where indicated (*), the impact of one-time funding is removed to show full extent of decline.						

MediaCo	2008	2009	2010	2011	2012	2013
Total Revenue as a % of 2008 Revenue	100%	95%	97%	101%	92%	85%
Growth over Prior Year	(1%)	(5%)	2%	4 %	(9%)	(7%)
Net Income as a % of Revenue	(12%)	2%	14%	14%	6%	(2%)
Growth over Prior Year	(279%)	120%	490%	4%	(62%)	(134%)
Return on Assets	(10%)	2%	13%	14%	6%	(2%)
Working Capital as a % of Total Assets	12%	10%	8%	(3%)	10%	9%
Note: A decreasing trend in total assets disguises a more significant decreasing ROA trend.						

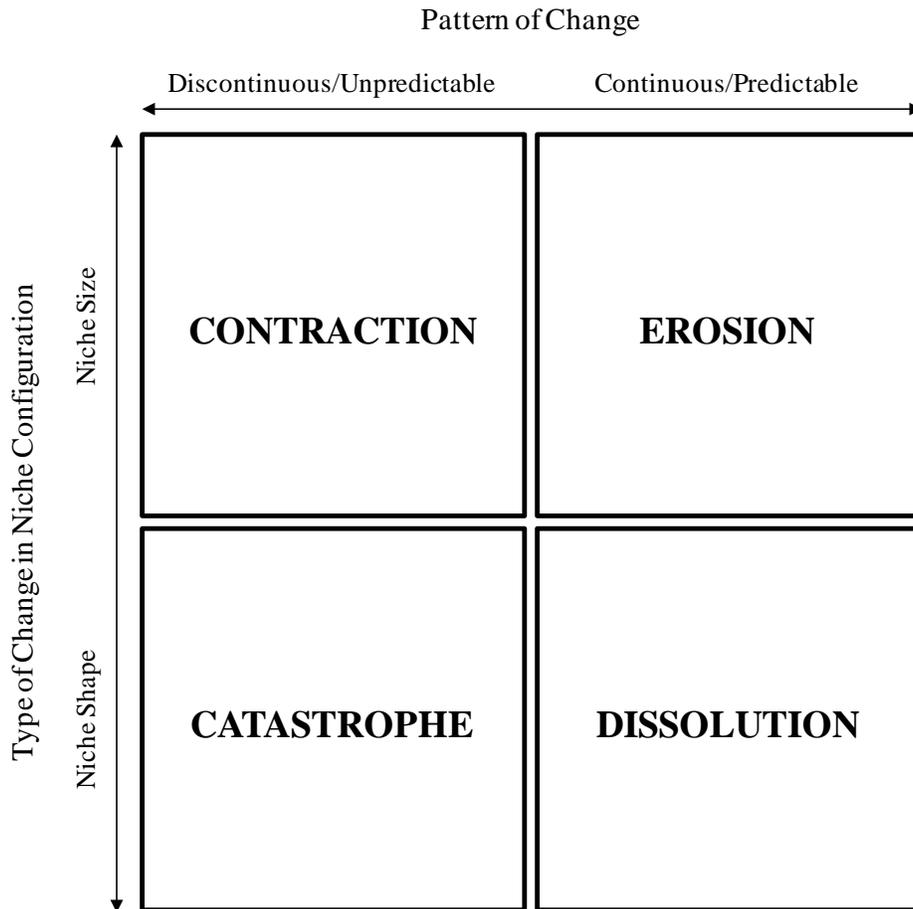| RetailCo	2009	2010	2011	2012	2013	2014
Total Revenue as a % of 2009 Revenue	100%	91%	86%	81%	76%	70%
Growth over Prior Year	(2%)	(9%)	(5%)	(6%)	(6%)	(8%)
Gross Profit as a % of Revenue	48%	48%	39%	37%	37%	36%
Growth over Prior Year		(9%)	(22%)	(13%)	(5%)	(10%)
Return on Assets	9%	7%	4%	(2%)	4%	18%
Working Capital as a % of Total Assets	35%	33%	18%	17%	16%	24%
Same Store Sales Growth	(7%)	(4%)	(8%)	(6%)	(3%)	(7%)
Notes: A decreasing trend in total assets disguises a more significant decreasing ROA trend. Same-store sales is an industry-specific metric that removes store openings/closures so that sales growth (decreases) in existing stores is observed and not mistaken for opening (closing) new stores.						

Note: The financial information presented is limited and at a high level of analysis to maintain the confidentiality of participating organizations. I include only an excerpt of the years and variables analyzed in order to provide evidence of decline. More extensive evidence is available by request.

Table 4.5 – Retrenchment activities

	Layoffs	Cost cutting
AutoCo	– Laid off 25% of workforce over three rounds in 2008 – Ceased to employ temporary personnel which peaked at increasing the workforce by as many as 37%	– Reduced hourly wages by 10% – Increased technology and automation – Increased cross-training – Adopted stringent application procedures for capital repair/expenditure – Introduced a "Closing the Gap" culture (with related banners on display) to reduce costs and increase efficiencies
AgriCo	– Laid off 1% of workforce in 2013 – Laid off 7% of workforce in 2014 – Announced intentions to lay off 8% of workforce in the current year	– Began planning projects in phases so that progress could be stopped at any stage – Preparing to introduce "Competing on Cost" initiative
MiningCo	– Laid off 25% of workforce over two rounds in 2013	– Implemented several weeklong plant shutdowns – Reduced the number of shifts – Continually trying to increase automation
HealthCo	– Turnaround plan suggested a layoff of approximately 5% of staff and that an additional 17% of other positions would be affected in some way – The use of layoffs ended up being much less than intended as they were attained mostly through voluntary attrition – Also, experienced leadership changes	– Initiated restrictions on discretionary spending – Introduced strict requirements for hiring – Renegotiated financing terms – Outsourced provision of some services – Increased buying power through joint buying initiative with other healthcare institutions – Managed overtime and sick leave – Deferred equipment purchases – Ensured employees are working to their full scope (i.e., training and pay level)
MediaCo	– Laid off 2% of workforce in 2011 – Laid off 4% of workforce in 2012 – Laid off 8% of workforce in 2013 – In total, the workforce has decreased by approximately 15% from 2008 to present day	– Outsourced some departments/activities – Began setting parameters in advance to identify the point at which a project/initiative would be stopped – Added a division dedicated to digital technologies – Later absorbed the digital division into the organization's other divisions
RetailCo	– Laid off 2% of workforce in 2011 – Laid off 2% of workforce in 2012 – Laid off 11% of workforce in 2013 – In total, the workforce has decreased by more than 35% from 2008 to present day – Also, experienced some leadership changes	– Terminated several lease agreements early for cash incentives – Outsourced some departments/activities – Lowered inventory on hand to reduce cost of storage and risk of obsolescence – Renegotiated arrangements with vendors – Initiated an expense management program

Figure 4.1 – Zammuto and Cameron's typology of environmental decline

Pattern of Change

|	Discontinuous/Unpredictable	Continuous/Predictable
Niche Size	**CONTRACTION**	**EROSION**
Niche Shape	**CATASTROPHE**	**DISSOLUTION**

Type of Change in Niche Configuration

Note: All quadrants in the typology refer to threats to survival and not ultimate outcomes. For consistency with Chapter 2, I use "catastrophe" in place of "collapse" from Zammuto and Cameron's theorizations. "Collapse" in accounting terms is taken as synonymous with bankruptcy and total failure when, in fact, the quadrant in Zammuto and Cameron's typology is intended to refer to significant organizational change ensuing from a discontinuous/unpredictable market shift.

Figure 4.2 – Summary of expected behaviours

		Pattern of Change	
		Discontinuous / Unpredictable	**Continuous / Predictable**
Type of Change in Niche Configuration	**Niche Size**	**CONTRACTION** Perception: Immediate, clear awareness; defined as a threat Coping Tactics: Reactive Outcome Emphasis: Efficiency orientation Strategic Response: Domain defense or domain consolidation Structural Adjustments: Change by deletion; substantial across-the-board or selective cutbacks Competition: Rapid increase	**EROSION** Perception: Less awareness; defined as an opportunity Coping Tactics: Inactive Outcome Emphasis: Efficiency orientation Strategic Response: Domain offense or domain consolidation Structural Adjustments: Change by redistribution; small, incremental changes (e.g., fine-tuning) Competition: Slow increase
	Niche Shape	**CATASTROPHE** Perception: Immediate, confused awareness; defined as a threat Coping Tactics: Experimentation Outcome Emphasis: Effectiveness orientation Strategic Response: Domain substitution Structural Adjustments: Change by substitution; trial-and-error search for new solutions Competition: Overall decrease	**DISSOLUTION** Perception: Slowly developed awareness; defined as an opportunity Coping Tactics: Proactive Outcome Emphasis: Effectiveness orientation Strategic Response: Domain defense, then domain creation Structural Adjustments: Change by addition; search for new alternatives Competition: Moderate increase

Figure 4.3 – Research sites located in the typology of environmental decline

Pattern of Change

Discontinuous/Unpredictable · Continuous/Predictable
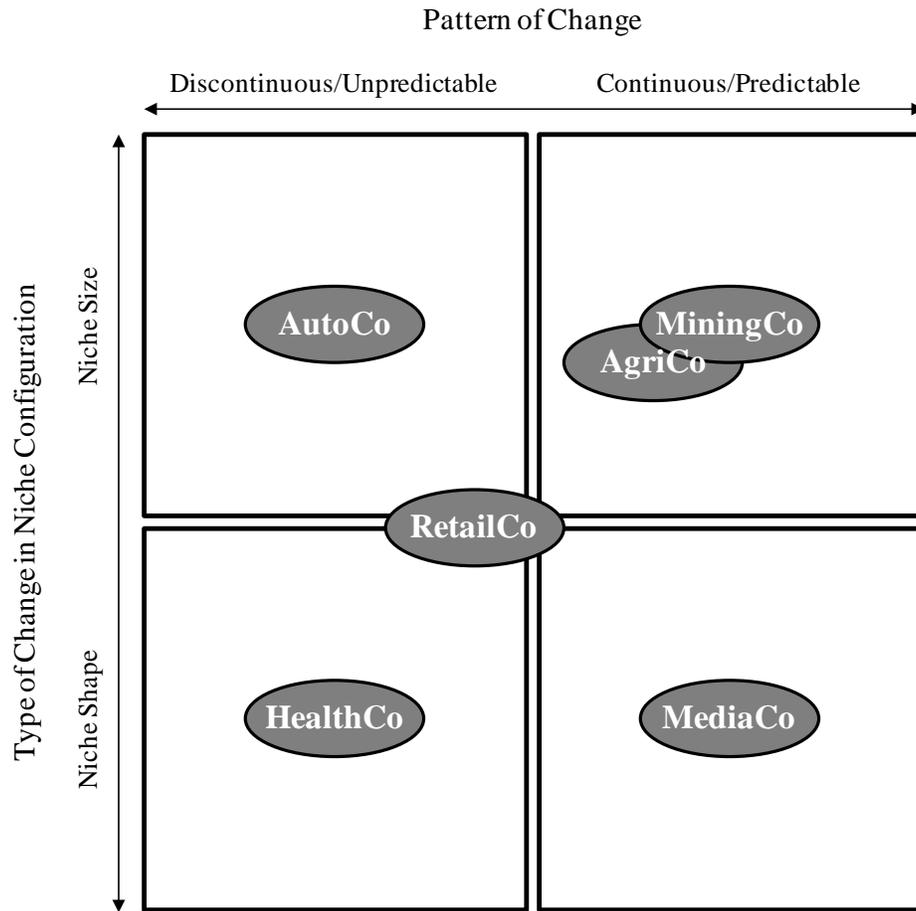
Appendix 4A – Key Terminology

Niche – A resource space defined by productive capacities and resource requirements within which a population of organizations produce similar products/services and compete with one another.

Carrying Capacity – The maximum number of organizations that an environmental niche can sustain, determined by the interaction between available resources, constraints and demand.

Organizational Domain – The part of the population's niche that an organization inhabits; the organization's core activity is determined by the clientele served, technology employed, and products/services involved.

Niche Configuration Change – An environmental shift that impacts either the size or shape of the niche.
 – **Niche Size** determines the level of performance supported in a niche.
 – **Niche Shape** determines the type of performance supported in a niche.

Pattern of Change – The pattern of change in the external environment.
 – **Continuous/Predictable Change** – Slow, gradual change that is consistent with past experience.
 – **Discontinuous/Unpredictable Change** – Sudden change that deviates significantly from the past.

Types of Organizational Decline
 – **Contraction** results from a discontinuous/unpredictable decrease in niche size.
 – **Erosion** results from a continuous/predictable decrease in niche size.
 – **Catastrophe** results from a discontinuous/unpredictable shift in niche shape.
 – **Dissolution** results from a continuous/predictable shift in niche shape.

Perceptions – How organizational members become aware of decline impacts whether they define the resulting circumstances as an opportunity or a threat. Perceptions refer to both the level/speed of awareness and how decline is defined.

Coping Tactics – Managers' predispositions and coping strategies depend first on awareness but also on whether predictable (unpredictable) onset permitted foresight (or not). Zammuto and Cameron use the label "behavioural tactics" but for ease of exposition I refer to "coping tactics" throughout the chapter.
 – **Reactive Tactics** refer to actions taken in response to contraction.
 – **Experimental Tactics** refer to trial-and-error actions in response to catastrophe.
 – **Inactive Tactics** refer to a passive response (i.e., no action) to erosion.
 – **Proactive Tactics** refer to actions taken to prepare for or in anticipation of dissolution.

Outcome Emphasis – Managers are expected to be focused on either efficiency (i.e., achieve more output with less input) when faced with decreasing niche size or effectiveness (i.e., responsive to consumer preferences) when faced with shifting niche shape.

Domain Response – Actions taken to externally reposition an organization.
 – **Domain Defense** preserves the legitimacy of an organization's core and buffers it from the environment.

- **Domain Consolidation** reduces an organization's level of operations by reducing its size and removing peripheral activities while retaining the core domain.
- **Domain Offense** expands an organization's operations to do more of what the organization already does via product development, market penetration, or market development; conducted to create organizational slack.
- **Domain Substitution** completely replaces current domain activity with a new domain that does not leverage existing skills/competencies; conducted to find a new domain to replace the one that "collapsed".
- **Domain Creation** diversifies and supplements current domain activity by creating related domains that leverage existing skills/competencies; conducted to diversify organizational risk in current domain.

Structural Adjustments – Internal changes, which vary in type and scope, to an organization's form and structure that affects the activities and methods used to function within its domain(s).

Competition – The resulting effect on competition among organizations within a niche.

CHAPTER 5

Conclusion

In this thesis, I have sought to understand the management response to organizational decline and, specifically, the role of management accounting during such decline. From existing literature on organizational decline and turnaround management, I establish motivation for my studies by describing the difficult context within which organizational members must make prudent decisions despite limited resources and shortened time horizons. Then, through field work conducted in five private sector organizations and one public sector organization, I employ different theories to address my research questions, guide my analysis, and explain my observations. This final chapter summarizes what has been learned from the studies in Chapters 2 and 3 examining with the role of management accounting during organizational decline and the study in Chapter 4 examining organizations' behaviours and response strategies more generally. I then discuss the limitations of my research design, identify directions for future research, and provide concluding remarks.

5.1   Thesis Summary and Contributions

I examine the management response to organizational decline. In Chapter 2, I address whether and how organizations use management accounting to manage decline. Using a typology of environmental decline to analyze my six organizations, I offer a theory-based explanation for why three of the organizations mobilize management accounting during decline while the other three do not. Building on the initial analysis of the public sector organization in Chapter 2, I more closely examine in Chapter 3 the role of management accounting during the decline and

successful performance turnaround of this organization using the theoretical perspectives of sensemaking and sensegiving alongside accountability. Together, these two chapters show that management accounting fills an important decision-influencing and facilitating role at a time when organizations need information for decision making. Despite different theoretical lenses, the findings of these two chapters are consistent with and supportive of each other. In Chapter 4, I show that all six organizations in this thesis employ other behaviours and response strategies in response to decline, despite the fact that Chapter 2 identifies that some organizations do not mobilize management accounting.

In organizations where I do identify the use of management accounting, members feel comfortable using their management accounting systems and reports because they have convinced themselves of the reliability of the information through a process of carefully reviewing and "cleansing" these resources. Following this process, executives in these organizations use accounting to gain an understanding of precisely how and why performance has declined. Executives also adopt or create "digestible" measures to ensure that organizational members clearly understand the realities of decline. By establishing these understandings and educating organizational members, providing them with meaningful terms of reference that they understand and can use to talk about their organization's performance, executives are able to engage organizational members in the management of decline. Moreover, executives are able to leverage a shared understanding of decline and common language of accounting to persuade organizational members to become involved in the management of decline and pursuit of a performance turnaround. Once a broader understanding is obtained of the realities of decline, accountability is instituted across the organization to support careful engagement with and monitoring of decline. Accountability is instituted such that organizational members feel they

have the discretion and ability (through new accountability relationships) as well as the means (through an understanding of key accounting metrics and accountability mechanisms) to invoke accountability from other organizational members. Essentially, once leaders understand decline for themselves, they then customize and simplify the language and tools of accounting to, ideally, ensure they are easy for frontline employees to understand and use.

While this use of management accounting characterizes three organizations in this thesis, I also show in Chapter 2 that three organizations do not actively mobilize management accounting during decline, instead expressing significant concern for the "truth" and "value" of their management accounting systems and reports. These organizations have management accounting tools that organizational members use during the ordinary course of business, but they do not adapt these tools or develop new tools to manage decline. Though the use (non-use) of management accounting was determined to be driven by a discontinuous and unpredictable (continuous and predictable) pattern of environmental change, organizations facing decline from a continuous and predictable change in their environment can learn from these other organizations' "cleansing" exercises. If similar cleansing exercises were employed regularly in these organizations, organizational members might feel more comfortable engaging with management accounting regardless of the reason for their decline.

Though my research shows that not all organizations mobilize management accounting to manage decline, I provide evidence that all of the organizations examined in this thesis employ various behaviours and response strategies in response to decline in alignment with the pattern of change (i.e., whether the onset of decline was continuous/predictable or discontinuous/ unpredictable) and type of change in niche configuration (i.e., whether niche size decreased or niche shape shifted). In particular, the pattern of change dimension highlights organizational

members' awareness of decline and, hence, the timing of their subsequent response. Further, the niche configuration dimension highlights that members protect their existing domain of activity and emphasize efficiency when the size of the niche is decreasing whereas, when the shape of the niche is shifting towards other products/services, members seek to diversify their domain and emphasize effectiveness. Due to the realities of decline, management seems to recognize that they must do something and, as a result, I observe a diversified collection of behaviours and response strategies.

A subtler theme common among all of the studied organizations is that, prior to facing decline, respondents described not needing to rely on management accounting tools and practices. During years when their organization performed successfully, members felt that it was not necessary to rely on management accounting because there was no need to ensure resources were spent wisely or to exercise prudent oversight and decision making. This alone is an interesting observation. Key executives have indicated not only that they pay less attention to their management accounting systems and reports during "the good years" but also that this behaviour leaves them ill-prepared to engage with accounting information when they need it most for the management of decline.

This thesis makes contributions to both research and practice. At a time when an increasing number of organizations are facing significant challenges as a result of intensifying competition and challenging economic times, understanding the management response to decline including the role of management accounting is of critical importance to researchers. The studies contained in this thesis provide insights towards understanding the management response to and use of management accounting in the unique context of organizational decline. Furthermore, the specific uses of management accounting that I identify in this thesis and summarize above are of

interest to practitioners because they are low-cost and simple to implement, which is favourable given the tight timelines and limited resources associated with decline. What I did not expect to find but believe to be equally as important as identifying "uses" of management accounting is that three of the private sector organizations included in this research do not mobilize management accounting during decline. This surprising finding should be of concern to both researchers and practitioners.

5.2 Limitations and Directions for Future Research

Of course, this thesis is subject to the traditional limitations associated with field research. Field research can be limited by interview participants' abilities to recall details from the past, compounded by participants' biases and perceptions. As a researcher, I am subject to my own biases, perceptions, and interpretations, which could affect the questions I ask and the ways in which I interpret participants' answers. To minimize the potential for these risks, I have confirmed the accuracy of transcripts with interviewees, consulted secondary materials, analyzed the data in an iterative and ongoing way, and included representative quotations so that readers have the opportunity to verify my conclusions (Stake, 2005).

Each chapter is also subject to limitations specific to the study in the chapter. For Chapter 2, my focus on environmental change means that I examine external causes of decline at the exclusion of internal causes such as the loss of a key leader, scarce financial resources, or even poor use of accounting. Another limitation is that I include organizations in various stages of decline. This means that members of organizations that do not mobilize management accounting might not yet realize that, like RetailCo, their organization's decline requires careful management using accounting practices. For Chapter 3, I note that I do not intend to suggest the use of accounting as the sole reason for HealthCo's turnaround but instead highlight the

important decision-influencing and facilitating role played by management accounting. Finally, the limitations of the study in Chapter 4 are similar to those of Chapter 2. My focus on environmental change remains at the exclusion of internal causes, and, further, the inclusion of organizations in various stages of decline may mean that members of organizations that do not exhibit all of the behaviours in Zammuto and Cameron's typology might not yet realize that their organization's decline requires careful management through a combination of strategic, internal, and other response activities.

This thesis is the basis of a number of future research opportunities. Based on Chapters 2 and 4, I highlight Zammuto and Cameron's typology as an opportunity to reconcile existing research on decline and identify gaps in our understanding of how organizations respond to organizational decline. Zammuto and Cameron's typology of environmental decline not only led to important findings concerning the use of management accounting when organizations face different patterns of change but also proved to be a useful way to consider a broader view of the management response to decline. Specific to Chapter 2, researchers could explore further the identified uses of accounting—namely, how organizations make sense with accounting, through what other mediums employees might better digest and use accounting, and how accountability helps an organization manage decline. Based on Chapter 3, I highlight that the use of accounting to make and give sense is not unique to conditions of organizational decline, so investigating how accounting helps or hinders sensemaking and sensegiving activities of other organizational processes (e.g., innovation, strategy) could be valuable. Further, the monitoring and disciplining enabled through a combination of accountability relationships and mechanisms observed at HealthCo creates interesting self-management opportunities for organizations and, likewise, interesting research opportunities.

More broadly, I intend to maintain access to the organizations in this thesis to continue field work in those not driven to use accounting to monitor whether and how their use of accounting changes as decline evolves. Further leveraging my access to and in-depth knowledge of the organizations in this thesis, I hope to conduct field work as they achieve performance turnarounds or determine organizational "death" is inescapable. More generally, continuing to engage in understanding how accounting is used to prevent, detect, and manage decline is fruitful given the operational and accounting differences between similar organizations and potential differences across industries. In the long term, I hope to conduct field work in different organizations to test the generalizability of my findings and further explore the uses of accounting identified in this thesis.

5.3   Conclusion

In summary, I find that management accounting fills an important decision-influencing and facilitating role at a time when organizations need information for decision making but that this varies according to the pattern of environmental change that led to organizational decline. The leaders of organizations in decline that do mobilize management accounting use it to help them understand the realities of their organization's decline. Additionally, leaders educate other organizational members of accounting metrics and meanings and attempt to use terms of reference that ideally ensure all organizational members understand and are persuaded to support the management of decline. Varied accountability relationships and mechanisms are instituted to ensure organization-wide involvement in the management of decline, to help members monitor progress on key performance metrics, and, moreover, to ensure the organization does not falter beyond its breaking point. Beyond accounting, I find that the management response to decline constitutes a complex and dynamic process. Rather than carefully matching external (internal)

causes with strategic (operational) responses or following a two-stage process of retrenchment first followed by strategic action, the management of organizations experiencing decline employs a diversified portfolio of responses, in a sense, trying anything they can to save their organizations.

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Appendix – GREB Ethics Approval

March 01, 2013

Ms. Christie Hayne
Ph.D. Candidate
Queen's School of Business
Queen's University
Goodes Hall
Kingston, ON K7L 3N6

GREB Ref #: GBUS-372-13; Romeo # 6007741
Title: "GBUS-372-13 The Use of Management Accounting in Organizations Experiencing Change"

Dear Ms. Hayne:

The General Research Ethics Board (GREB), by means of a delegated board review, has cleared your proposal entitled "GBUS-372-13 The Use of Management Accounting in Organizations Experiencing Change" for ethical compliance with the Tri-Council Guidelines (TCPS) and Queen's ethics policies. In accordance with the Tri-Council Guidelines (article D.1.6) and Senate Terms of Reference (article G), your project has been cleared for one year. At the end of each year, the GREB will ask if your project has been completed and if not, what changes have occurred or will occur in the next year.

You are reminded of your obligation to advise the GREB, with a copy to your unit REB, of any adverse event(s) that occur during this one year period (access this form at https://eservices.queensu.ca/romeo_researcher/ and click Events - GREB Adverse Event Report). An adverse event includes, but is not limited to, a complaint, a change or unexpected event that alters the level of risk for the researcher or participants or situation that requires a substantial change in approach to a participant(s). You are also advised that all adverse events must be reported to the GREB within 48 hours.

You are also reminded that all changes that might affect human participants must be cleared by the GREB. For example you must report changes to the level of risk, applicant characteristics, and implementation of new procedures. To make an amendment, access the application at https://eservices.queensu.ca/romeo_researcher/ and click Events - GREB Amendment to Approved Study Form. These changes will automatically be sent to the Ethics Coordinator, Gail Irving, at the Office of Research Services or irvingg@queensu.ca for further review and clearance by the GREB or GREB Chair.

On behalf of the General Research Ethics Board, I wish you continued success in your research.

Yours sincerely,

John D. Freeman

John Freeman, Ph.D.
Professor and Acting Chair
General Research Ethics Board

cc: Dr. Steven Salterio, Faculty Supervisor
       Dr. Jane Webster, Chair, Unit REB
       Amy Marshall, c/o Research Office