Antecedents of Organizational Complacency: Identifying and Preventing Complacency in the Work Environment

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Today's competitive global environment is more dynamic than ever and is one in which organizations cannot sit idly by. The financial crisis in the US economy provides a vivid example of what can happen when organizations fail to adjust to changes in their environment. However, little is known about the underlying causes of complacency and what managers can do to prevent it. This article identifies sources of complacency in four major areas: process, people, structure, and culture. We then develop a framework for assessing the need for environmental scanning based on the complexity and frequency of change in the environment. Finally, we use market examples to provide managers with useful advice on how to identify and react to complacency in their organizations.

Key Words: organizational complacency, strategic flexibility, change, adaption, organizational culture
JEL Classification: M12, M14

Introduction

> The tragedy of life is often not in our failure, but rather in our complacency; not in our doing too much, but rather in our doing too little; not in our living above our ability, but rather in our living below our capacities.
>
> Benjamin E. Mays

Complacency is not an option for 21st century organizations striving for longevity and sustainable profitability. The pace of business continues to

accelerate exponentially through technological and business process innovations, global expansion and interconnectivity and growing market pressures. Firms are increasing their focus on innovation as they seek to stay one step ahead of foreign and domestic competitors. Information and options are becoming more prevalent to consumers via the internet, thus placing added demand on companies to adjust their strategies to meet changing customer preferences. Global supply chains and free trade zones have changed the business landscape around the globe. As a result, more flexible firms often outperform their competitors as they can rapidly change to market conditions.

The research on agility has focused on the capabilities of firms to adjust to new market demands. Strategic flexibility is the capacity to react quickly to changing competitive conditions in order to maintain a competitive advantage (Hitt, Keats, and DeMarie 1998). This requires strategic leadership that is proactive in responding to new business opportunities. On the human resource front, it involves equipping employees to be able to handle new tasks and challenges. At the structural level, developing dynamic core competencies may create processes to exploit new market opportunities (Hitt, Keats, and DeMarie 1998). Although it is critical to be able to respond to new demands, the reaction becomes meaningless if the environmental threat is not accurately identified. Therefore, we argue that the first step in increasing strategic flexibility is to reduce complacency.

Complacency was abundant in the financial services industry during the time period leading up to the financial crisis in 2008 (Soltwisch 2015). At the individual level, overconfidence in current business practices allowed managers to continue investing in risky mortgage securities. At the group level, social pressures and groupthink allowed boards to overlook important indicators suggesting that borrowers could no longer afford their mortgage payments. And at the organizational level, technology and structures built around profitable investment activities created tremendous rigidity, allowing banks to overlook the growing systemic risk in the market (Soltwisch 2015). As a result, banks continued to lend to unqualified borrowers despite the growing mortgage delinquencies and foreclosures, ultimately leading to one of the worst financial crashes since the great depression and a global recession (Davis 2009).

Although there are clear dangers associated with being complacent, there is little advice available to mangers on how to identify sources of complacency in their business, and what they can do to prevent it. There-

fore, the purpose of this article is to identify key indicators of complacency in four areas: process, people, structure, and culture. In addition, we develop a framework for assessing the need for environmental scanning based on the complexity and frequency of change in the environment. Finally, we explore the decision making processes involved with contentment and use market examples to provide managers with advice on how to identify and react to complacency in their organizations.

Sources of Complacency

The cure for organizational complacency is not a one-size-fits-all solution; it is essential for organizations to analyze their competitive posture and propensity for change before identifying and implementing a necessary transformation relative to their circumstances. Organizations need to routinely address their internal and external factors to gauge their competitiveness to calibrate their environmental factors, decision making processes, and corporate culture. Such calibration must critically examine the processes, people, structure and culture (see table 1). Individuals in key positions within the organization must embrace and ignite the necessity to be agile and constantly add value to their stakeholders; if the leaders within the institution are complacent, organizational complacency will ensue. Moreover, an organization needs to analyze and demand the level of accountability that is expected from the board of directors, executive team, and other management levels to ensure the company is reaching its full potential.

Complacency can be identified in four key areas: processes, people, structure, and culture. Processes become routine over time in order to make work more efficient. For example, lending to unqualified borrowers with little or no credit and no money down was common practice in the time period leading up to the financial crisis (Davis 2009). As this activity became more routine, lenders became less concerned about the ability of borrowers to afford the loans they were issuing, even though there were clear indicators suggesting that the housing bubble had begun to collapse. For example, between 2005 and late 2007 banks continued to issue risky loans despite clear signs that housing prices were falling (Phillips and Yu 2011). One of the key process changes leading to complacency was that banks could sell their loans on the secondary market as mortgage backed securities, thus removing the debt from their books (Soltwisch 2015). This transfer of risk was a clear process change that allowed banks to continue to ignore changes in the market. Routines developed over time are likely

to remain intact as long as they remain profitable (Nelson and Winter 2002). Because of this, processes developed around revenue generating activities may become a significant source of complacency.

There was a clear sense of overconfidence among top managers in the banking industry during the housing bubble, allowing them to become complacent in their decision making. Research suggests that top management teams are more likely to keep the same members and stay together longer when the company is doing well (Finkelstein and Hambrick 1990). These highly cohesive teams are more likely to encounter groupthink (Janis 1972), reducing the evaluative capabilities of the members. A long standing set of top managers may indicate a sign of complacency. Outsiders should be brought in to stimulate new perspectives. In addition, employees should be trained and incentivized to provide new ideas for product and process improvements.

Cultural and political elements may also lend to complacency within companies. Although success is often revered by other organizational members, failure may be socially unacceptable. Because of this, maintaining the status quo is often politically less risky than going out on a limb to identify and react to problems. For example, loan officers in the financial service industry were admired within their institutions as loans remained profitable sources of revenue during the housing bubble. The reward structure also encouraged complacency as they were often a given a commission based on the amount of loans they originated (Kane 2009). The social and political pressures were in favour of maintaining the status quo, making it difficult for individuals to speak out about the risky mortgages. As a result, banks continued to lend to questionable borrowers despite clear red flags in the market.

Finally, structural changes can make a company less likely to identify changes in their environment. Centralized decision making structures make firms less agile as decisions have to work their way up the chain of command. In a study of the newspaper industry, Gilbert (2005) showed that US newspapers companies were very slow to react to competition from online news sources because local level managers were required to adhere to strict procedures laid out by headquarters. All decisions had to be approved by the CEO, causing the local managers to be less likely to consider alternative news sources (Gilbert 2005).

As companies make large investments in new plants, property, and equipment, they will have a reduced capacity to meet changing market conditions do to structural inertia (Hannan and Freeman 1984). The supply chain may also become an impediment to change. Supply relation-

TABLE 1 Organizational Complacency Effect on Organizational Components

Processes	• Insufficient environmental scanning • Unable to react to external changes • Inadequate decision making processes in place
People	• Little accountability held among organizational players • Justification for retaining unsuitable leadership
Structure	• Subject to organizational atrophy • Structure becomes combersome
Culture	• Culture of risk aversion and uncertainty avoidance • Culture dependent upon rules and procedures • No challenging processes, procedures, and standards

ships built up over long periods of time may limit managers' ability to identify new suppliers. As managers develop strategic partnerships with key suppliers, they become more dependent on those suppliers. Escalating commitment theory tells us that managers are more likely to continue with a failing course of action when they have significant sunk costs in a project (Arkes and Blumer 1985). As companies invest in new technologies and capabilities, they may become less apt to respond opportunities and threats in their environment. Therefore, structural changes associated with current business activities may become a source of complacency within the organization. Table 1 depicts these four major sources of complacency.

Once an organization selects a competitive strategy, it derives a set of critical tasks and objectives to accomplish through the use of processes, people, structure, and culture (O'Reilly 2008). Complacency stems from minimal and inconsistent critical analysis of each of these factors within an organization. The likelihood that an organization is subject to complacency increases correspondingly with organizational atrophy. As an organization matures, the corporate self-awareness and purpose within its processes and structure decrease often resulting in excess administrative and support staff, cumbersome procedures, reduced communication and coordination, and reliance upon outdated business models (Daft 2013). An organization that neglects to conduct regular critical analyses of its processes, people, structure, and culture fails to perform regular environmental scans, utilizes poor decision making processes, justifies its current position, hires and retains ineffective leadership team, and relinquishes accountability within the organization. The failures of Blackberry, Kodak, Blockbuster, Borders, and Circuit City exhibit many of these complacent characteristics. The solution to organizational com-

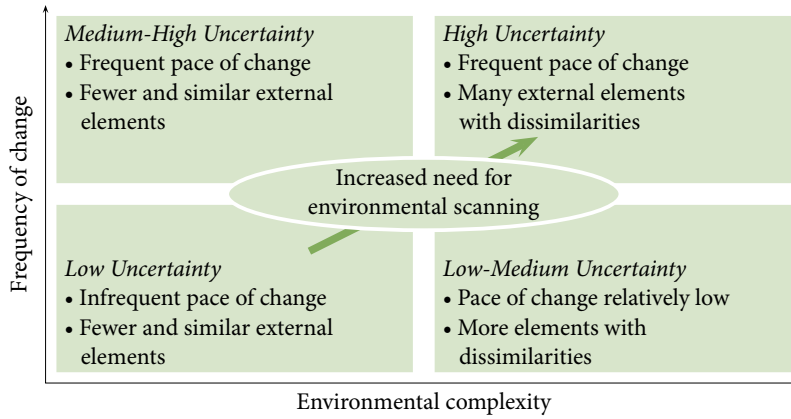

FIGURE 1 Framework for Assessing Need for Environmental Scanning

placency is to maintain a routinely investigative mechanism that examines the processes, people, structure, and culture to insure the required agility within the industry.

DESIRE FOR CONSTRUCTIVE CHANGE

To successfully ward off complacency, an organization must be more than willing to change; they must be proactively scanning, analyzing, and forecasting their ever-changing environment. The willingness to react to circumstances or adopt changes, while important, may not be enough for companies in a complex and unstable environment. Business model shelf-lives grow shorter and shorter as the pace of business and technological innovations increase. If an organization within a highly uncertain environment relies on a reactive-adaptation approach, it may fall behind its competitors. Organizations within these environments will need to increase the frequency of environmental analyses. Figure 1 displays the relationship of the frequency of change in an environment, the complexity within it, and the need for environmental scanning. Organizations must designate cross-functional teams to perform routine environmental scanning to determine the appropriate strategies relevant to their environmental uncertainty.

DECISION MAKING PROCESSES

Organizations have limited time to react to changes before their performance is hindered. Figure 2 depicts the stages an organization experiences once a change is introduced in their environment. The blinded

stage begins when an internal or external change threatens the longevity of the firm; often times, the organization does not recognize the signals introducing the decline and neglects to take prompt action (Daft 2013). Borders Group failed to react quickly to the introduction of online book retailing and its performance fell quickly behind Amazon. Borders' inaction eventually led to a faulty action; the company clung to its brick-and-mortar strategy as bookstore sells declined. The organization was deeply invested in an outdated business model, was unable to restructure, and filed for bankruptcy in 2011. The inability to identify change and incapacity to determine how to react to it are contributors to organizational complacency. Consequently, an organization must be able to analyze and forecast changes in the environment, as discussed above, but must also be able to identify and react to changes made by its competitors and appropriately adapt.

A factor that contributes to the capability of the firm to adopt change successfully is its ability to recognize the type of reactive-change necessary. Episodic change is characterized by low-level and managed disruptions and is usually a one-time occurrence such as a well-calculated merger; continuous change occurs when rates of change are higher and requires consistent technological and product innovation; lastly, disruptive change occurs with debilitating force that revolutionizes a process or an industry practice. An organization can better analyze the level of threat an episodic change poses and may choose to mimic the change. Continuous changes are much more predictable and can be anticipated with increased levels of technology; organizations are expected to seek out new and improved methods, equipment, and workflow processes (Daft 2013). The most complex type of change is disruptive; how does an organization know that a new trend will stick or how it should react to the trend? A constructive way for an organization to analyze the situation is by walking through a decision making process.

The following process adapts Henry Mintzberg's (Mintzberg, Raisinghani, and Théorêt 1976) Incremental Decision Model to the context of reactive change and adaption.

1. *Identification Phase.* This phase beings with an organization recognizing that an external change has occurred and then diagnosing the problem by gathering more information. Organizations can use environmental scanning and analysis to identify the following factors:
    - *Direct and indirect competitors.* Organizations should not only

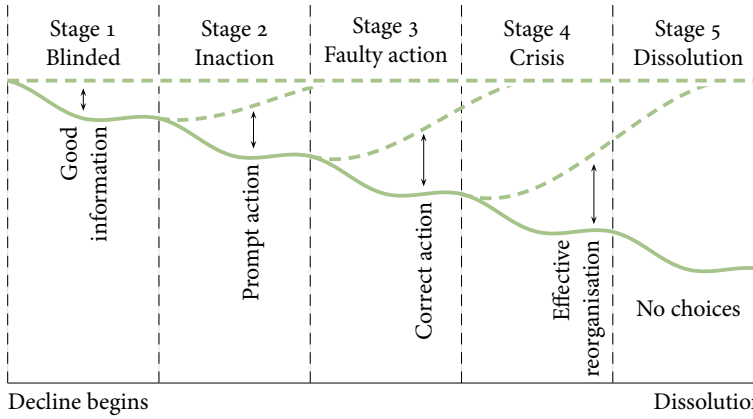

FIGURE 2 Stages of Decline and Widening Performance Gap (adapted from Weitzel and Jonsson 1989)

consider direct competitors but also institutions they do not compete with directly by identifying which products and services might be related to their own.

- *Types of change.* An organization should understand whether its competitors made a strategic or tactical change; is the competition launching a major product, service, process, or business-model innovation or is the company simply refining their current strategy (Dess et al. 2014). Is the change one that presents a nominal impact or could this be disruptive to the industry?
- *Hard and soft trends.* Organizations should look at both measureable trends and possible trends. The organization then must ascertain whether or not the change is attractive, resilient, attainable, and whether it creates value. There must be a need for the change for a period long enough to make the change worthwhile, the necessary technology must be available or reachable in the near future, and the adjustment should provide value to the consumer and/or the organization in some way.
- *Threats to organization.* It is important for organizations to consider how changes being made by competition will affect its target market, market share, cost structure, and overall strategy.

2. *Development Phase.* Organizations should identify possible reactions and capabilities to react by first searching its existing procedures and then resorting to a custom solution if it is faced with a non-programmed decision. An organization must then recognize

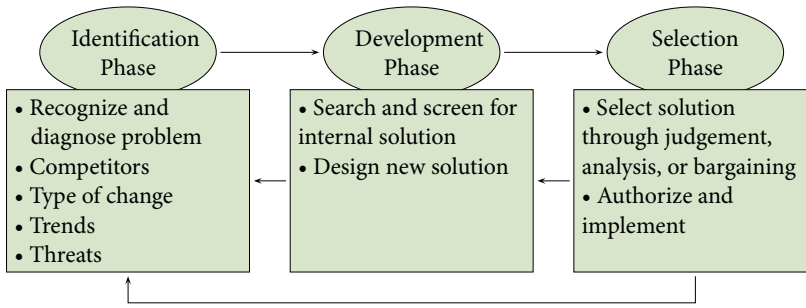

FIGURE 3 Incremental Decision Model and External Changes

whether or not it has the resources or ability to carry out the response and must be able to justify its actions. Often times, an organization's reaction will reflect the change made by the competition; i.e. strategic action by competitor will be combated with a strategic reaction by the organization. It is important to understand that an organization's competition may also react to its own decisions.

3. *Selection Phase.* This phase is when the solution is chosen. If the decision falls upon one decision maker, s/he may use judgement and experience to select a solution. Management can use scientific data in an analysis of alternatives but must realize it may not be as prominent in reacting to external changes. The Carnegie model of organizational decision making discusses formation of a coalition; an alliance among organization leaders that agree about the institutions goals and priorities (Cyert and March 1963). Often, before a coalition can be formed, members with differing opinions must debate on a goal oriented solution is found. To implement the new action, managers must authorize the change and sell it to employees; organizational culture contributes greatly to an organization's ability to embrace and carry out change.
4. *Dynamic Factors.* This decision making process is not a static step-by-step method. Often times, minor problems arise in the course of identifying, selecting, and implementing a problem and solution; these decision interruptions will cause the organization to loop back to earlier stages. Organizations should reflect upon the process and results of their decisions, learn from mistakes, and then continue to scan the environment for other possible threats.

Blockbuster, once America's dominant movie-rental chain, suffered

from organizational atrophy; the organization was unable to identify an effective reaction to Netflix's interruption in the movie-rental industry. The company lacked structure and processes that would have allowed it to identify environmental opportunities and threats demonstrated in hard trends by its direct and indirect competitors and find a solution. The incremental decision making process could have assisted Blockbuster in identifying the problem, understanding the impact on its operations, developing a solution, selecting the best alternative, and then implementing the solution. Kodak, Borders, Circuit City, and Blackberry all could have benefited from having this process in place.

ORGANIZATIONAL STRUCTURE AND CULTURE

One contributor to organizational complacency is the inherent desire for stability in human nature; people are naturally predisposed to be risk averse. Therefore, major fundamental changes can compromise the perceived validity of organizational decisions in the views of the public and shareholders (Hannan and Freeman 1989). In order to demonstrate legitimacy to stakeholders, a company must create a structure designed to embrace change and build a well communicated corporate culture to support it. The structure necessary to support change is contingent upon the organization's size, strategy, culture, and its focus on either manufacturing or service. Large organizations possessing the goal of efficient product manufacturing will require more of a mechanistic design (Daft 2013). It is important for these organizations to utilize organic designs within smaller departments whenever possible to increase the innovativeness of the firm. These hybrid organizations are ambidextrous: They have the ability to maintain efficiency in today's business operations while anticipating and preparing for predicted changes in the future. The organization can accomplish this through separating their exploitative operations from the exploratory operations and by maintaining a tightly integrated senior management team (O'Reilly and Tushman 2004).

Generally, organizations increase the number of positions within their structure as the external environment becomes more complex and harder to predict; while this enables companies to handle the increased uncertainty, it often leads to increased internal complexity (Daft 2013). Increased size and complexity in an organization may contribute to reluctance to change, or complacency, and lead a business to react only when its survival is in jeopardy. Many established firms wait too long to respond to external changes and when they do, it is often inadequate; this

may explain why change is often driven by new firms (McArdle 2012). In order to prevent this nature of complacency, the organization must establish a culture that supports and encourages essential changes. Whether it is the entire organization or the explorative leg of an ambidextrous organization, the culture should promote constant improvement. Google's culture, for example, is built around the idea that 'Great just isn't good enough' (Google n. d.). The company sets goals it knows it can't reach yet but that is what is expected of Google employees and stockholders.

A risk adverse culture breads complacency; organizations that react negatively to mistakes made by managers and employees will find themselves with a workforce trained to follow existing rules and procedures without question. To avoid complacency and achieve constant improvement in their business operations, organizations can develop a business-process-management culture that aligns all employees' efforts on adding value to the end consumer of their product or service (Zairi 1997). Therefore, an organization must consider the risk it is willing to undertake in its strategy and effectively communicate it with employees. This can occur through changes in policies and procedures as well as cultured manager/employee interactions. Organizations that accept feedback from employees working through processes can assess the purpose of business practices and make improvements. Managers' reactions to employee mistakes can either deter or encourage employee innovation and contribution. Organizations wishing to avoid organizational complacency should promote challenging processes and allow functionality without the fear of making mistakes.

JUSTIFICATION OF CURRENT POSITION

There are many justifications an organization may use to avoid change: Overconfidence in and reliance on past success may lead an organization to stick with an outdated strategy. Managers may demonstrate uncertainty avoidance resulting in justification of maintaining historically successful business models. Change is risky; it involves doing something that isn't already working (McArdle 2012). This is why culture and corporate accountability are key in ensuring the endurance and longevity of a firm.

A CEO, or other executive team member, with a history of success can become self-righteous and overconfident in his/her ability to make decisions. A leader with a successful past may be an attractive hire to an organization or may be retained by an organization for the wrong reasons; key

individuals in a corporation should be hired or retained based on their ability to provide ongoing and value to the company. If the individual with a successful track record is content with what he has accomplished in life, he may bring complacency into the organization. Certainly, the institution should analyze abilities based on past performance but should equally assess the individual based on his/her potential and desire to add value to the organization. The individual should be forward looking and motivated to help the organization achieve prominence in his/her industry. Google describes their culture as one where they target smart and determined people with ability over experience.

The same may occur for successful business models; organizations may cling to past successes and miss future opportunities. Richard Randall (2011), founder and president of management-consulting firm New Level Advisors, describes Kodak as complacent:

> Though Kodak was in on the ground floor of digital photography, its management was complacent for many years. Like so many other companies that have had a long run at the top, they either didn't spend the time or didn't have the imagination to see where digital photography might go and what it would do to their film-driven business model.

Kodak desperately wanted film to remain in-demand just as Borders and Blockbuster thought they could keep their brick-and-mortar business in competition with Amazon and Netflix. Business should not just be evaluating what they should do in the future, but should be evaluating what they should stop doing. Otherwise, consumers will make those decisions for them (Randall 2011).

CORPORATE ACCOUNTABILITY

Proper corporate governance will allow an organization to align the interests of the executive team and the owners of the organization but is simply not enough. Organizational complacency stems from lack of accountability within corporate governance players: the shareholders, board of directors (BOD), and executive management. These players should hold each other responsible for challenging their assumptions and rational; by questioning one's performance and validity of their current processes, the organization can achieve regular corporate self-analysis and avoid complacency.

Ideally, the shareholders of a company elect a BOD to operate in the best interests of the group; often times this relationship is complicated

with proxy votes and majority shareholders setting the stage for accountability to be disrupted. If a majority of shareholder(s) elect members to the board for reasons other than to effectively guide the company, such as friendship or familiarity, this can lead to reduced effectiveness and environmental awareness hampering constructive and timely change. One of the roles of the BOD is to select, evaluate, and plan succession for the organization's CEO. If the BOD is unwilling to exercise their fiduciary responsibility and replace the CEO when the individual becomes complacent or self-righteous, the organization will suffer and abdicate its competitive position. The BOD must also be held accountable for guiding and directing major strategies, objectives, and plans of the organization; if the BOD does not balance its focus on the past, present, and future and consist of individuals with suitable expertise and level of participation, the organization will lose its momentum.

The executive team should then, in turn, challenge middle managers on the expectations and standards they establish. Organizational complacency will sneak up on managers that are not challenging themselves and the employee's around them to achieve and improve organizational processes. This loops back to organizational culture; building accountability of achievement into the foundation of the organization's culture to allow the firm to extinguish complacency.

Conclusions, Limitations, and Discussion

Complacency trap, a stage that cripples the ability of organizations to effectively forecast and adapt to the environmental changes, is the source of downward spiral that results in demise of organizations. As our global markets are becoming more interconnected, complacency is not an option to remain competitive on an international scale. To avoid falling victim to ever-changing and ever-evolving markets, organizations must embrace agility and prompt adaptation to market trends and operational and strategic manoeuvres that competitors employ to gain competitive advantage. Aligning the appropriate culture with structure, people and processes to constantly remain vigilant and on guard is necessary to overcome organizational complacency.

Leadership must play a pivotal role in building agility by identifying areas of their organization that may be prone to complacency. We suggest that processes, people, culture, and structure may become important sources of complacency. Over time, processes are developed to make profitable activities more efficient. These procedures may hinder change

initiatives, however, as they are often cemented into the habits and routines of the organization (Becker 2004). For example, Borders Bookstores built a very sophisticated point of sale inventory management system to keep their stores stocked with merchandise. As they continued to invest in carrying the latest books and games, the world was rapidly changing around them. Books were becoming digitalized, making the one stop shop an antiquated business model in the book industry (Clay et al. 2002). Managers and employees should continually evaluate key processes in order to insure that they align with their competitive environment.

> The only thing of real importance that leaders do is to create and manage culture. If you do not manage culture, it manages you, and you may not even be aware of the extent to which this is happening.
>
> Edgar Schein (2010)

Building a culture that is equipped to identify and react to changing business practices requires a constant effort by organizational leaders. Employees should be encouraged and rewarded for taking risks. 3M does this through a program called 3M New Ventures. Employees are insured that they will get their old jobs back if they leave their current job to launch new products or invention. They are also compensated for their efforts by receiving a percentage of sales related to their project. Employees are often scared to identify problems or create solutions as they often believe they will be blamed if things don't work out. They may also feel social pressures to maintain the status quo. Leaders should be fostering a culture that encourages taking risks to solve important problems.

Structures can become highly complex and inert over time (Hannan and Freeman 1984). These structures may be slow to respond to environmental changes, leaving them vulnerable in the competitive market. A restricting may be a way for organizations to maintain dexterity. For example, Google has recently restructured into a holding company (Alphabet) in order to maintain flexibility in some of the smaller business units, such as Nest. With this new structure, Alphabet can give their businesses more autonomy to make their own decisions (Dougherty 2015).

Structure may also influence how leaders view their competitive landscape. Managers often view similarly structured companies as their main competitors (Porac, Thomas, and Baden-Fuller 1989); however, it is often just as important to look at indirect competitors to see where customers may find alternatives. For example, universities may use similar size schools in their region as a benchmark for their strategic plans. Be-

cause of this, many universities have overlooked competition from other sources, such as online education.

Although we have provided advice on how to identify and manage complacency, there are several limitations to the current study. Change is a challenging process, and may actually leave the company more vulnerable to market pressures while it is occurring. Organizations are subject to the liability of newness after a dramatic restructuring, increasing their probability of failure (Singh et al. 1986). In this article we have focusing on sources of complacency in order to help organizations identify when a change is necessary. However, organizations should take steps to prepare for a change effort before they jump in head first.

Building support from key organizational members early on can make a change much easier to implement. Restructuring can be a time consuming and expensive process, so the availability of resources should be carefully considered. Our decision making model may help managers understand the type of change needed to realign their business strategy. It should be noted that it is much easier to navigate an equilibrium rebalance at the early stages of decline rather than waiting for the performance gap to widen (Weitzel and Jonsson 1989). Future research could help identify when change is not an option for a company. In that case, managers may consider a divestiture strategy rather than a restructuring.

Our Framework for Assessing the Need for Environmental Scanning suggests that managers should look at both environmental complexity and frequency of change to understand how much environmental scanning is needed. We suggest that highly uncertain environments characterized by complexity and a high frequency of change have the greatest need for environmental scanning. Future research could investigate what how these environments may differ depending on the industry. For example, high-tech industries may be exceptionally dynamic, posing a higher risk for dramatic environmental shifts. Managers in these industries may need to spend additional resources scanning for new technologies that may reshape their industry.

Governing boards and top executive teams play a key role in creating a culture that embraces change. Future research could delve into this topic further to better understand how to increase dexterity in top management teams. Diversity and executive tenure may be important variables for reducing complacency.

National and organizational cultures may be additional contextual variables worth exploring. For example, cultures high in uncertainty

avoidance, such as South Korea, may be more prone to complacency as they tend to avoid taking risks.

This research provides an important framework to help managers identify and react to complacency within their organizations. As globalization becomes an increasing force in the 21st century, our complex and dynamic competitive environment creates new opportunities and challenges for business leaders. Managers need to contemplate both foreign and domestic threats in order to remain competitive on an international scale. In order to do this, they should be mindful of complacency and the impact it may have on their ability to effectively navigate the competitive landscape.

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