

Truth Is Power: How Organizations Break Free from Binding Learning Effects to Integrate New Knowledge; The Case of Shipping Industry, Japan

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Abstract:

The study fills a gap in empirical research on how organizations alter their evolutionary path by untangling the self-reinforcing learning effects and unlearn their Truth: the assumptions and beliefs concerning their collective reality that are held so deeply that these may only manifest in behaviors. While extant research examines the status quo as an inertial construct, this study conceptualizes the status quo as an inherently inertial and productive party to change. The enquiry applies an action perspective and examines the microprocesses of agents in their routine interactions with the status quo. These questions are answered: What kind of microprocesses do organization members engage in to visualize the aspects of Truth that no longer support growth? Through what kind of processes does the status quo allow change and integrate segments of alternate realities in its knowledge? The findings substantiate that 1) cataclysmic external shocks are not enough to induce updates to Truth; 2) leadership and organizational members' visibility into alternate pools of knowledge does not lead to the recognition of these as viable choices of thought and action; 3) integration of alternative knowledge into Truth is possible when these conditions are aligned: agents are supported with institutionalized organizational resources in solving the emotional – cognitive impasse and, in escalating the issue for decision-making and execution; the external pressure is high and, agents' intense emotions are triggered. A vertical business group of Japan's shipping industry provides the case, which supplies insights to all organizations undergoing radical changes.

Keywords: path breaking, learning effects, power, business groups, qualitative study

1. Introduction

In the globally interconnected economy, organizations have access to an unprecedentedly increasing pool of alternate realities on how things work, how to cope with challenges and, how to integrate learning into knowledge; all of which may enrich their experience of Truth. A wealth of information at leaders' fingertips on alternate Truths, why do then organizations struggle to adapt or to reinvent themselves? This is begging the question how, if at all, organizations allow space for realities other than their own Truth should these appear better fit with challenges.

Path dependence theory approaches the enquiry as a conflict between change agent and system inertia. While offering excellent insights, it leaves understanding lacking on the system not merely as an inhibitor but as a productive party to the change process. This study aims to fill this gap by conceptualizing the status quo as an inherently inertial and productive party to change. The enquiry applies an action perspective and examines the microprocesses of agents in their routine interactions with the status quo.

Below, contributions of path dependence theory are appreciated. Then the questions left open shall then be investigated with a theoretical review of Truth literature.

Path dependence theory offers insights on the evolutionary utility of inertia as organizations prioritize historic precedence over change to minimize their risk of volatility. Over time, the organization will enjoy efficiencies from a complex complementarity of assets as well as from a dominant logic shared among members: assumptions, world views, operating routines, communication and, decision-making templates. As a natural result of this self-reinforcing multi-layered process, the status quo will resist the increase in options that alternate realities present, even when these options appear more beneficial (David 1994; Sydow, Schreyögg, and Koch 2009). Altering an evolutionary path has proven a contentious issue, scholarly and managerial consensus on how the process takes place is lacking. The evolutionary path transformation failure rates are high and it is unclear why some transformations succeed and others do not. A few empirical studies bring examples on the conditions under which organizations may break free from their evolutionary paths: a change in the stakeholder network (Aaltonen, Ahola, and Artto 2017), the integration digital technologies in the business model (Bohnsack, Kurtz, and Hanelt 2021; Wenzel, Wagner, and Koch 2017), sudden demand surge and investor activism (Fortwengel and Keller 2020). While insights are offered on the triggers that condition change, the view into the inside is missing. How does the status quo allow changing an evolutionary path? How does it relinquish its grip on Truth to integrate segments of alternate realities into its knowledge?

To answer the question, this study applies a cognitive resource approach and conceptualizes the problem from an action perspective, on the level of the individual: as organization members interact with the Truth in their daily routines.

As for definitions, Truth shall be understood to be the vision of collective reality regarding the survival of an organization: how things work, how to cope with challenges and, how to integrate these learning points system-wise. The collective reality is assumed to be constructed and reinforced in multi-level and overlapping relationships among members in a mostly emergent, therefore implicit manner. Truth is manifest as an influence on members that shapes assumptions, perceptions, interpretations and, behaviours (Foucault 1980; Pastuh and Geppert 2020).

As no organization possesses the full Truth, it borrows segments of Truth from the wider institutional and societal network it is embedded in. The stakeholder network's contributions of Truth segments are internalized via multiple interconnected layers of learning processes (Polanyi 1944). Organization members, while ascribing to the internal Truth, contribute a very interesting liquid segment of societal Truth: one imprinted in emotions and emergent behaviors that are recalled and enacted autonomously without awareness of situation or experience that triggered it (Fallet et al. 2023; Adrian-Kalchhauser et al. 2020). The nature of Truth as a social construct augments this liquidity: it is ripe with contradictions and biases that will stay under the radar of organizational and individual awareness. These dynamic contradictions tend to entail instances when one's own collective reality is assumed superior over others or when action diverges from stated ideals. The higher stakes a conflict has, the more prominent the bias shall be (Pronin and Hazel 2023). Truth possesses a resilience that is very hard to overwrite due to its emergent societal nature, which is further compounded by complex embedded complementarities in knowledge, sustained learning - reinforcing processes. While scholars and practitioners alike agree on this, there has been no empirical research that forwards understanding on the processes of updating Truth. To fill this gap, qualitative research conducted by the author in the marine shipping industry of Japan sheds light on the transformation processes of Truth. The study challenges some established notions and makes others more nuanced. In addition, it provides a rare glimpse into the microprocesses of a closed vertical business group difficult to access for scholarly research. The findings substantiate that

- 1) Cataclysmic external shocks do not suffice to induce updates to Truth
- 2) Leadership and organizational members' visibility into alternate pools of knowledge does not lead to the recognition of these as viable choices of thought and action
- 3) Integration of alternative knowledge into Truth is possible when the environmental pressure is high and, agents are supported with institutionalized organizational resources in their emotional and cognitive work to solve the impasse. JBG resources that support changing evolutionary paths by updating Truth are illuminated in the Discourse and Conclusions section.

The next section places the narrative in its institutional context and reviews the business group (BG) form of organizing with a focus on the Japanese Business Group (JBG). Methodology is then described and the findings elaborated and synthesized in the subsequent Discourse and Conclusions. Here,

- actors' assumptions and beliefs about Truth are made visible and, the thought and behavioral processes they autonomously follow are presented;
- actors' thought and communication processes are illuminated when faced with the internal controversy of their Truth;
- the organization's support / inhibition of actors' effort to remove the controversy is investigated.

Implications on theory and managerial practice round up the article. Here, limitations will be acknowledged and avenues for future research suggested.

2. All depends on the context: The Business Group

As opposed to the Anglo-North American model of free-standing corporations, business groups (BG) are interdependent conglomerate organizations with extended, economically and, socially construed business networks (Yiu et al. 2007; Dau, Morck, and Yeung 2021). The ties connecting the actors of these networks are complex and often implicit (Khanna and Rivkin 2006). Business groups are present globally and constitute the primary form of business in the Global South including Japan and Korea, as well as parts of Europe. Given the variety of business groups and, their socially constructed ambiguous nature, consensus on definition is lacking. For this reason, a definition that is aligned with the relational epistemology of the research shall be adopted: business groups shall be understood as "a collection of legally independent firms that are linked by multiple ties, including ownership, economic means, and/or social relations (family, kinship, friendship) through which they coordinate to achieve mutual objectives" (Yiu et al. 2007).

BG is suited well to examine the becoming of Truth for its paradoxical nature. From one hand, BG structure ambiguity testifies of flexibility and adaptive growth; paraphrased, this indicates an availability for updates to the Truth. The invisible yet impenetrable boundaries, on the other hand, indicate inward-looking: a tendency for in-group bias and resistance towards updates to the Truth. This paradox can be untangled when examining it from a system perspective, as a fine-tuned balance struck by integrating the polar opposites of chaos and rigidity with each other (Járfás 2023b).

To construct its view on reality, the BG exploits and minimizes knowledge volatility at the same time. When exploiting volatility, the BG augments its incomplete Truth knowledge with segments of knowledge of the embedded social and economic network. While centered around a common denominator, these knowledge

segments do diverge from one another in the form of variation and conflict. The convergences reinforce network cohesion around a commonly held Truth, while the divergencies supply potential for renewal and some noise. BG then minimizes this rich volatility to make it internally congruent with a consistent system approach: 1) On an organizational level, knowledge is consolidated through iterative cycles of standardizing and routinizing; 2) On the level of BG members' microprocesses, Truth knowledge is integrated via mostly implicit cognitive, emotional and, behavioral controls. As knowledge sinks in over time, it becomes taken for granted and, will be reproduced by members autonomously (Romanelli, Powell, and DiMaggio 1992; Járász 2019). With this deeply held consensus on knowledge, members will be predisposed to align with the Truth that the status quo stands for. When held long unchallenged though, a consensus on Truth may tilt system-balance toward rigidity and freeze BG in a state of hyper-stability and prevent it from responding to environmental changes (Ouchi 1980; Morck and Nakamura 2005; Járász 2019).

Within this context, the East Asian - Chinese, Korean and Japanese business groups are distinguished for their characteristics informed by Confucian philosophy: prominent vertical power bias, interpersonal harmony and, traditional conservatism (Zhang et al. 2005; Chen and Chung 1994). The power bias maximizes differences in status, role, age, and sex. Social collectives are divided between ingroups and outgroups and these connect via groups performing the role of mediators. By interpersonal harmony one is expected to avoid fluctuations and, therefore, to maintain the status quo. Traditional conservatism further reinforces harmony by prioritizing precedence, aka status quo, over change. Evidently, the East Asian BG conceives volatility a greater and more imminent existential threat than rigidity, therefore emphasizes the continuance of the status quo by minimizing volatility. This, however, creates an imbalance toward inertia; another existential threat, albeit not immediate. To counteract the rigidities of vertical asymmetries in knowledge, volatility is then incorporated back as an integrator in the form of social organizing - *guanxi*, *inmak*, *kankei* (Hitt, Lee, and Yucel 2002; Kwon and Adler 2014; Járász 2023a). The Japanese business group (JBG) makes here a small yet significant deviation from its Chinese and Korean counterparts. *Kankei*, the JBG relationship institution allows closed groups to form unmediated new relationships should these appear beneficial in a fortuitous moment. Meaning, it may open up a third space at the discretion of a gatekeeper, which flexibility contributes a great deal to JBG resilience (Aoki and Dore 1994; Hitt, Lee, and Yucel 2002; Járász 2023b). To summarize, the East Asian BG default operating model is that of a complex, closed vertical network. The integration of volatility into the vertical hierarchy maintains a delicate equilibrium between status quo and action (Járász 2023b). Japanese companies' success attracted attention to social organizing as a management model (Abegglen 1958; Lincoln, James, Gerlach, Michael, and Ahmadjian, Christina 1992). Here, members' social immersion starts in the selection phase. The lack of experience is important to maximize members' integration of the organization's Truth and their

consequent alignment with the organization. During on-boarding new members will be trained to learn the ropes as much as to experience the corporate identity. As for performance, the regularity of relationships in tight-knit groups will provide a more effective control over members, than explicit rules and regulations would (Fruin 1980; Wilkins and Ouchi 1983; Etzioni 1965). Compensation will be mostly standardized to emphasize collective effort and, will be awarded for both performative and non-performative related criteria to appreciate results and the sense of belonging (Ashton and Dore 1974; Aoki and Dore 1994).

To recap, the BG being a social and economic network, both formal and informal organizing are inherent in its dominant logic. For this reason, it is well suited to study the ways of becoming of Truth: the palpable yet invisible essence of an organization as experienced by its members in their mundane beliefs, thoughts and, autonomous interactions. The essence that informs both high and micro level action for continuity and renewal. JBG as an extreme case of vertical organization matched with high levels of socialization, aids discovery by highlighting relationships. The methodology is introduced in the section below.

3. Method

I applied grounded theory as it is most appropriate to discover socially constructed meanings: How does a world manifest itself in actors' utterances and actions? How to account for processes that the actors perceive but for which they are unable to visualize alternative venues? What are the meanings that may hold true in certain conditions but take on a new/modified property as conditions change? How to account for change?

Data were collected in 13 semi-structured interviews from management pipeline; middle and top managers of Company A. Organizational members were invited by HR to volunteer for the interview based on two criteria: 1) their involvement in both domestic and international operations and/or strategy making and 2) length of tenure to make sure that their narratives are drawn from a rich experience base. The size of the invited participants' pool is not known. Japanese companies operate with a lifetime employment principle; as such, tenure is understood to correspond with experience and status in the hierarchy. Members are rotated among roles regularly, on average 3 years apart, to build specialists who know the organization inside out from the perspectives of multiple units. At the time of data collection, the participants belonged to 7 sub-units, representing 2 decision-making core units, 3 operating core units, and 2 peripheries. The participants had been transferred internally 3 to 8 times during their tenure; this means their narratives contribute a total of 63 lived experiences of several layers of the core as well as various rungs of the periphery for each person. For this reason, the sample size and quality provide an accurate picture of internal dynamics and conditions. All participants were directly involved in domestic and international operations and/or strategy making. Management pipeline and

middle managers were in their 30s to 40s and, had an approximately 10+ year track record, while top managers were 55+. All respondents are male and except for two, are Japanese. The interviews took approximately 1 to 1.5 hour each and were conducted across June and July, 2019 in the Tokyo HQ and in the London subsidiary office. The initial interviews were followed up with clarifications on March 29th and June 29th, 2020. It is not ideal to open a lengthy gap between the interviews and the clarifications, no earlier dates could be obtained, however, due to the executive partner's scheduling. The participants were asked to express their thoughts freely about the business, typical internal operational and external/internal relational interactions. The interviews were conducted in English and Japanese by the author who, as a long-term resident of Japan and, the Japanese diaspora of the United States, is proficient in both languages. The participants were free to choose the language of their preference. The interviews were voice-recorded, transcribed verbatim, translated to English as applied. The author decided not to edit the scripts for grammar or vocabulary to stay close to the source and, to convey the emotions expressed in the informants' form and content. A thematical, structural and dialogic/performative narrative analysis then followed in the spirit and framework provided by grounded theory (Glaser and Strauss 1967; Charmaz 1996). Within the school of grounded theory, Merriam's procedural stance was adopted (Merriam 1998). In addition to academic peer review, the analysis is audited by applied psychology and industrial counselling experts whose native tongue is Japanese, which adds credibility to the interpretation of the data. To comply with confidentiality terms, the identity of the company and of the respondents is masked.

4. Discourse and Conclusions

Company A is a medium size competitor of the marine shipping industry's bulk market segment, with total assets between 200 and 300 million USD. At the time of research, a wave of mergers consolidated the commodity players – the segment's key clients; and with this, the already tight bulk shipping market contracted. The disruption tilted the balance in favour of the buyers and the previously dominant mid/long-term relationship agreements gave way to spot transactions and a shrinking pool of short through medium-term agreements. In the legacy business model, players competed with low prices and relationship quality. This accommodated the vertical organizational design's long-term philosophy, which allows redundancies in internal communication and, consequent operative cost mark-ups as a trade-off for sustained good performance. The market moving toward spot transactions, shippers, to retain their membership in the industry, became obliged to compete on speed and bare minimum prices. Company A responded to the updated business model; however, its vertical slow grind, ill equipped for speed, put its continuity at peril. An anticipation of crisis permeates narratives - D: *So, as a shipping company, as an entity, we have to find something new. To survive.*

Frustration finds outlet in various ways from assigning blame to third parties to expressions of pain implying incongruencies within Truth - albeit unaware. Examples below highlight respondents' attitudes toward

challenges.

1. Cost competition challenges: distance problem by externalizing it, assign blame and solution to third parties.
A: You know the taxation system, we have to pay 35-40% of taxes, while other shipping companies get better care from government and get reduced taxation systems right...so we really have to compete with others (...) with the freight only.
2. Timely responsiveness: imply market – Truth disconnect. Redundancies in vertical communication design hinder operations. *B: So, I believe there're some times that I cannot fix some business because they just just walked away. 'Cause they couldn't wait for us. They couldn't wait for us and we were waiting for Tokyo. So right...*
3. Acknowledge disconnect between expectations to search for change and internal Truth. Prioritize Truth: status quo over potential for change and stick with the established resource-consuming tactical routines.
D: And also.... (uneasy pause) philosophically, even though the headquarters would say, OK, find new business...etc. etc. on the other hand the phone is calling mainly about routine work (speed accelerating). So, day by day...(uneasy chuckle), so you know.... There's really some gap between the ideal and the fact, yeah (firm tone).

In the latter instances, the constraints of internal Truth are verbalized, yet their message stays on the level of giving voice to a frustration that cannot be helped. The frustration is framed in an action perspective rather than analytically; the narratives' focus is on the performance of routines. The shared pain point is the instruct/obey vertical communication relationship, yet the researcher's tentative comments and questions that guide the conversation around power relationships are found bizarre and are suffered out of politeness. Interestingly, the the situations that tumble on absurdity are not unfamiliar to respondents but are related to their daily working routines – either experienced in stakeholder relationships or, are exercised by themselves with demonstrated feasibility. Below, examples highlight respondents' ambivalent relationship with quasi lateral communication patterns in a variety of situations.

1. Distinct levels of the hierarchy share knowledge: attend a meeting; attendance validated by status as well as expertise:
 - Researcher: *Would you also join meetings remote, by video conference?*
 - J: *That doesn't happen* (prompt and absolute denial). *No way. Well, other companies may be doing it, I don't know* (sharp tone, uneasy laugh). *Not in our company.*
2. Seeking/sharing knowledge does not denote a vertical relationship; *D: But in the foreign offices, in the foreign subsidiaries, we have SO MANY (marked punctuation) chances to meet someone. (...)You know, we can.... If we want to, we can talk to everyone. To solve a problem or to express our wishes.*

3. Forego power bias and negotiate an explicit obligations/responsibilities balance with stakeholders:
 - Researcher: *Is there any sign that contracts with Japanese stakeholders would be more explicit? More detailed? Like responsibilities?*
 - Mr. M: *The new companies, the contract is drafted by lawyers. We see the contract like that (dismissing). But otherwise, just a few lines.*
 - Researcher: *Right, right. Which one is more efficient for you?... The explicit contracts...?*
 - Mr. M: *Right, yes. Yes, yes. I don't waste time by negotiating the things which is not written in the contract.*

The above underlines that the frustration felt in the power relationship fails to materialize in members' cognition 1) as a negative aspect of Truth 2) as a mismatch between Truth and external reality 3) as connected with their loss of future vision. Members' engagement with alternate Truths triggers no recognition of these Truths. A window on alternate Truths by an independent third party in a safe third space triggers strong ambivalent emotions but produces no (immediate) recognition effect.

To synthesize, Truth is the essence of an organization that produces/reinforces relationships and the templates of thought and action. The internalization of Truth is, in fact, both the prerequisite for membership in the organization and the effect of membership. From an action perspective, Truth is behavior: the enactment of the emotional and cognitive internalization process. This entails ascribing to inconsistencies: the ideals of being/becoming that are distinct from actual states and processes – *"Basically, our corporate structure is flat (draws a hierarchical chart)"*. When the narratives touch absurdity, it is an indicator of 1) agents' strong emotions regarding unresolved underlying tension within Truth (Hamaoka 2015) and, 2) unresolved tension between Truth and environment. How is then such an emotional-cognitive-processual impasse to be resolved?

The process leading from this low-point to implementation of changes can be pieced together with hindsight deduction based on a feedback post-implementation from an executive. M: *By the way, I understand that you did interviews in the overseas offices. I am getting a kind of very positive or constructive feedback from overseas. I don't know what you have discussed about anything, but ... That's how we introduced like on-line board meeting. With overseas offices. We noticed that communication could have been one-sided. So, we corrected that part.*

The above feedback highlights a system-wise integration of formal and informal control and coordination processes, whereby undocumented action in the form of voluntary feedback bears legitimate power and, has resource mobilizing consequences in the formal space (Járfás 2023a). The informal discourse allows contradictions pertinent to Truth to materialize and alternatives to become plausible. The informality of the process allows agents to gain buy-in and, consensus pending, present updates for decision-making and

implementation. Allowing members from the lower rungs of the hierarchy to join decision-makers in meetings changes the power distribution, the corner stone of the Confucian JBG institution: a radical update to Truth.

The swiftness of the implementation: effective a few months after the interviews, demonstrates a system of success factors. While change is contingent on multiple factors simultaneously and interdependently, including environmental pressure and organization members' agency, aspects inherent in the JBG institution enable the status quo to relinquish its power on Truth and allow change. These aspects are interlinked and cyclical in nature, their listing order is decided to underline the storyline: 1) Systemic integration of formal and informal spaces lends legitimacy to third-party encounters and members' agency; meaning that formal resources available to a precisely delineated group of informal processes (Járfás 2023a); 2) JBG organizational knowledge is built as an integration of stability and volatility (Járfás 2023b). The inertial maturity and cohesion of complex systems that hinder updates to Truth turns productive in the decision-making and implementation phases. The established processes and routines are readily accessible to members / members are familiar with the processes and routines; 3) Members' high acculturation renders them predisposed to align themselves with objectives and decisions.

5. Implications on Theory and Practice

The study has three key implications on theory. First, it examines the problem of updating collective reality from a system-view: as a fluid interactive balance of opposing organizational forces. Next, it posits the organization as a productive party to change as opposed to the extant literature's treating it as an object of change. Organizations, the primary objective being stability, are inherently inertial. The status quo, to retain its hold over resources, becomes rigid and inward looking and, it is argued, that radical change becomes possible by disruption. Here on the other hand, the micro level process of an evolutionary transition is accounted for that can take place during a radical change.

In addition, the study contributes to research by unravelling updates to learning effects, the resilience of which is argued next to impossible to overwrite. The question being: "How are updates done to agents' self-reinforcing emotional and cognitive processes that are manifest in their autonomous behaviors?"; the study applies a like approach by examining respondents' emergent emotional and cognitive processes. The resolution of tensions can take place when 1) intense emotions are triggered 2) the trigger effect can be processed in a legitimate albeit informal third space 3) opportunity for escalation to a formal space is made possible and last but not least, 4) escalation and implementation are routine processes that are easy to access and understand.

As for implications to practitioners, organizations tend respond to new environmental needs by changing

business models and updating respective operating routines. This is an increase in options in terms of “what we do”: opens the opportunity for new growth without changes to Truth as to “how we do things over here”. Over time the incongruence of Truth with the environment may stifle further growth or, usher in a decline. Practitioners are encouraged to explore their informal innovation processes that are tolerated or suppressed but can be legitimized and, organize resources to coordinate and integrate them in the formal organization.

The specificity of the study is its greatest strength and, at the same time, limitation. The case provided by a Japanese business group operating on Confucian principles, it is not advised to be taken as a model and to be generalized across geographies. Rather, it can serve to guide practitioners and scholars alike to investigate overlooked pockets of transformation – resilience potential in diverse institutions. While business groups are best positioned to benefit from this guidance, the case has relevance for corporations and non-business entities as well.

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