MANAGING PERFORMANCE IN A VOLATILE ENVIRONMENT: CONTRASTING PERSPECTIVES ON LUCK & CAUSALITY

JOHN A. PARNELL
William Henry Belk Professor of Management
School of Business Administration
University of North Carolina at Pembroke
Pembroke, NC 28372
(910) 521-6465
john.parnell@uncp.edu

ERIC B. DENT
Professor of Management
School of Business Administration
University of North Carolina at Pembroke
Pembroke, NC 28372
(910) 521-6259
eric.dent@uncp.edu

TIM HUGHES
Reader in Applied Marketing
Bristol Business School
University of the West of England,
Coldharbour Lane, Bristol BS16 1QY
United Kingdom
tim.hughes@uwe.ac.uk

NICHOLAS O'REGAN
Professor of Strategy
Bristol Business School
University of the West of England,
Coldharbour Lane, Bristol BS16 1QY
United Kingdom
nicholas.o'regan@uwe.ac.uk

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ABSTRACT

Performance management is an increasingly perilous and challenging activity for many firms, and involves understanding the drivers and measurement of performance. Academics tend to see performance in terms of rationality whereas business leaders tend to interpret drivers of overall performance in a broader context. When global crises and high uncertainty confound causal links to performance, practitioners often invoke the notion of "luck" as a prospective explanation. Academics are less inclined to do so because they tend to conceptualize luck differently. This paper considers the academic/business gap and how Mode 2 research into luck and causality could produce findings that are more meaningful to practicing managers in both understanding and affecting performance. It concludes by identifying ways to encourage greater academic-practitioner congruence to meet the challenges of a volatile operating environment.

INTRODUCTION

The assumption that high performance emanates from effective strategizing, strategy execution and managerial excellence—not luck—seems to permeate the strategy-performance literature (Morrow, Sirmon, Hitt, & Holcomb, 2007; Parnell, 2005). Much of the scholarly work in this area assumes that luck or randomness plays little or no role in the determination of performance in states of global crisis (Anderson, Herriot, & Hodgkinson, 2001). The dominant positivist philosophy essentially excludes the possibility of luck as an explanatory phenomenon. An alternative view is that luck may play an influential role in determining performance (Barney, 1986; Denrell, 2005; Taleb, 2007; Parnell & Dent, 2009).

In performance management systems, luck is rarely considered as a driver of performance, but rather as an extraneous factor. Performance management systems focus on a goal orientated intentional strategy [see Hoogenboom & Ossewaarde (2005) for a discussion on intentionality] and the means to an end [see Townley et al. (2003) for a discussion on rationality]. A rational approach 'shapes the structure and functioning of work organizations' (Hasselbladh & Kallinikos, 2000: 697). Both discourses on intentionality and rationality omit the possibility of luck as a driver of goal achievement. A stochastic perspective on firm performance is not entirely new (Barney, 1986; Mancke, 1974; Parnell, Lester, & Menefee, 2000), but published work invoking this view is limited (Parnell & Dent, 2009).

The purpose of this paper is to briefly consider the different perspectives of academics and business managers with regard to the role of luck in managing performance in states of global crisis. Competing conceptualizations of luck are partially responsible for the current relevance gap between academia and practice. Academics tend to view luck as a post facto phenomenon that infers random variation, whereas practicing managers tend to attribute

outcomes to luck when they simply do not understand their causes (Adaval, 2006; Amburgey & Baden-Fuller, 2010; Celentani & Loveira, 2006). The study of luck demonstrates the limitations of the 'hard science' approach that has dominated much scholarly work in management, over the last twenty years, and is claimed to be the cause of a gap that has emerged between academia and practice.

This paper examines an alternative approach to studying the phenomenon of luck and suggests the means by which the degree of 'academia vs. business congruence' can be enhanced. In this way it contributes to the discussion on how academia can meet the needs of the operating environment of business more effectively and enable them to meet the increasing challenges inherent in a global business context (Görling & Rehn, 2008; Steffens, Davidsson, & Fitzsimmons, 2009).

THE RELEVANCE OF THE SCHOLARLY PERSPECTIVE

The degree of relevance of academic research and teaching to practicing managers has been a subject of debate for at least twenty years. The origins of the gap are said to stem from universities concentrating on a 'hard science' analytical approach to research at the expense of a more rounded approach (Leavitt, 1989). By teaching management more as a science than as a practical craft (Bailey & Ford, 1996), management academics have separated themselves from the context of management practitioners (Clegg & Ross-Smith, 2003, Mintzberg, 1996) and other stakeholders (Starkey & Madan, 2001). While the defining characteristic of management science should be its applied nature (Tranfield & Starkey, 1998) management research has become overwhelmingly concerned about academic prestige rather than the practice of management (Pfeffer & Fong, 2002) and does not fare well in the competitive marketplace for ideas (Pfeffer, 2007).

A more balanced approach between rigour and relevance is required if academics are to regain their credibility (Bennis & O'Toole, 2005; Hodgkinson & Starkey, 2011)) Universities are significant creators of knowledge and it is imperative that research makes a difference to both business competitiveness and societal value. On the other hand, business organizations must be aware of and encouraged to become engaged with academia, thereby adding another imperative, a requirement that the research must be both relevant as well as rigourous (e.g., Porter & McKibben, 1988; Leavitt, 1989; Bailey & Ford, 1996; Mintzberg, 1996; Starkey & Madan, 2001; Pfeffer & Fong, 2002; Van de Ven & Johnson, 2006; Shapiro et al. 2007).

The debate has been featured in various contexts in the *British Journal of Management* (BJM) over a number of years (e.g., Alteroff & Knights, 2009; Antonacopoulou, 2010; Hodgkinson & Starkey, 2011; Starkey & Madan, 2001; Tranfield & Starkey, 1998; Van Aken, 2005). The central argument is that there will be serious implications for future funding and support of business schools if their research output is perceived as irrelevant and meaningless to the world of practice (Anderson et al., 2001; Crowther & Carter, 2002; Huff, 2000; Starkey, 2001). The implication is that tipping the balance towards managerial relevance is desirable (Pettigrew, 1997) and will require work that is more grounded in practice (Hodgkinson & Starkey, 2011; Huff et al., 2006). However, the counter argument is that business schools may lose their distinctive position if they seek to produce only commercially usable knowledge (Grey, 2001). Business schools have many stakeholders in addition to the management profession (Starkey & Tempest, 2008). Basic research (Weick, 2001) and academic pluralism (Learmonth, 2008) may be threatened if academic work is aligned too closely with the needs of managers. The differing views remind us that management research is a fragmented field with little paradigm consensus (Tranfield & Starkey, 1998).

The pursuit of the 'hard science' analytical approach has been enabled by the development of computer technology allowing for ever more sophisticated modeling. Analysis and interpretation of such models, however, have yet to predict the types of global crises experienced from 2007 onwards (Taleb, 2007). Their role in shaping and determining actions that will lead to recovery is also debatable. Although United States President Barack Obama did not make a particular model explicitly known, it is presumed that he was using what he believed to be the best information and models available when he predicted that the passage of the American Recovery and Reinvestment Act of 2009 would prevent the U.S. unemployment rate from exceeding eight percent. Even with passage of this bill, however, the unemployment rate still reached 10.6 percent, a considerable variance in model prediction.

These models have facilitated the development of knowledge that is increasingly technical and narrow (Bailey & Ford, 1996). Evaluating and alleviating the gap can be viewed from a crisis management perspective. A crisis threatens important expectancies of stakeholders and can seriously impact an organization's performance and generate negative outcomes (Coombs, 2007; Pearson & Clair, 1998); it can be highly damaging and typically requires quick, decisive action (Marra, 1998; Crandall, Parnell & Spillan, 2010). Indeed, the scope of what constitutes a crisis has broadened in recent years (Elsubbaugh, Fildes & Rose, 2004; Evans & Elphick, 2005; Lalonde, 2007). An organization's response to a crisis can dramatically affect its reputation, financial performance, and even survival (Coombs & Holladay, 2006).

Fundamental to the gap is the view taken about the nature of knowledge. There is a strong argument that the 'hard science' approach of conceiving knowledge as abstract, disembodied, formal and divorced from context is unrealistic, particularly in the management context (Blackler, 1995). In pursuing the scientific approach, the role of human intentionality is

unrecognized, resulting in a moral vacuum in the teaching of management and a lack of application of common sense (Ghoshal, 2005).

One way forward may be to take an alternative standpoint acknowledging that knowledge creation is partly a social process and involves learning through participation and interaction (Amabile et al., 2001; Tsoukas, 2005). Although the academic-business gap is often framed as a failure to effectively transfer academic knowledge (Tranfield, Denyer, & Smart, 2003), it can also be seen as a knowledge production problem requiring a two-way co-production of knowledge between academic and practitioner communities (Van de Ven & Johnson, 2006). Shapiro and associates (2007) found support for both ways of framing the problem. That is, while communication to practicing managers needs to be improved the involvement of practitioners in creating knowledge is equally important. Thus, the debate can be seen to be a fundamental one in relation to the nature of research and how it is conducted.

The 'hard science' approach operates on a Mode 1 model of the development of knowledge, where problems are set and solved in a context governed by the largely academic interests of a specific community. An alternative is the Mode 2 model where problems are identified and explored in the context of application (Gibbons et al. 1994). The Mode 2 model emphasizes that in contemporary society knowledge needs to be socially robust (Nowotny, Scott & Gibbons, 2001). To achieve this robustness it is essential that potential users of knowledge participate in its generation and that the criteria for the quality of research includes its application (Gibbons et al., 1994). This has significant implications for the approach taken in research. Pursuing practitioner engaged research requires a critical realist philosophy that recognizes that most things in the real world are too complex to be understood by a single person or perspective and that the engagement of different stakeholders often brings in different and contradictory

perspectives (Van De Ven, 2007). Critical realism (Bhaskar, 1993; Pawson & Tilley, 1997) recognizes the existence of causal factors that may be unobservable directly, but nonetheless influence the social and psychological world in which real people make decisions.

The following section demonstrates how a meaningful examination of luck in the performance management context requires an engaged approach to develop an understanding from a plurality of perspectives.

LUCK IN THE PERFORMANCE MANAGEMENT CONTEXT

Although rarely referenced explicitly, the role of luck in the performance of organizations is implicit. Luck's role in organizational performance can be viewed from three broad perspectives. First, luck may play little or no role; such a view is consistent with scientific inquiry's assumption of causality (Kovenklioglu & Greenhaus, 1978) and the notion that a belief in luck is irrational (Day & Maltby, 2003). Although a standard error term is used to represent randomness, the assumption of the pursuit of science is that this item will eventually be reduced to a negligible level. Second, luck may influence performance in one or several iterations, but the law of probability means it will average out over time. Consider a golfer with an established handicap who has a streak of better-than-average rounds. This golfer may even replicate behaviors (unrelated to golf performance) from the first day of the streak such as wearing the same shirt (which is now the "lucky" shirt), eating the same pre-round meal, and so forth. However, over time this golfer's scores will return to the average of her or his established handicap. Scholars do not see these better-than-average or worse-than-average streaks as lucky. Rather, they would label them as routine variation about the mean. This view is consistent with scientific inquiry as well because it also minimizes luck's role, at least over the long term.

There is a third, more intriguing perspective. What is often referred to as luck may indirectly influence long-term outcomes by either generating short-term success that positions a firm for repeated success or directly creating success through a series of "lucky" endeavors. Following complexity theory, many outcomes can be highly sensitive to initial conditions to the extent that that one unexpected event may be disproportionately amplified over the long term (Dooley, 1997). Gladwell (2008) gives this argument book-length treatment in a book with the subtitle, *The Story of Success*. Gladwell contends that Bill Gates' success can be largely attributed to luck. He happened to attend a high school that had access to a mainframe computer at a time when almost no other comparable school in the world did. Some reasonable achievement with that computer time allowed him an experience of unlimited time-sharing on another computer at a time when computer time was very expensive. Gladwell essentially argues that if Gates hadn't had these fortunate experiences, it is unlikely the world would know Microsoft today. Glad well provides other examples including the lucky birth dates of elite hockey players and the musical band The Beatles.

Because most research linking strategy and performance seeks to explain specific causal relationships, it appears to invoke one of the first two perspectives, relegating luck to minimal consideration (Ma, 2002; Parnell & Dent, 2009). Likewise, scholars appear to divide phenomena into two broad categories based on presumed degree of organizational control. Factors controlled by the organization that are presumed to directly influence firm performance receive the most attention. Alternatively, factors that are largely uncontrollable receive relatively little attention. Hence, the notion of luck receives scant attention because its relative influence on the organization is viewed as independent of firm strategy and therefore not of direct scholarly interest.

Such a dichotomy based on organizational control has two shortcomings, however. First, in a pure sense there are no situations completely under an organization's control and there are no situations where an organization has absolutely no control (Dent, 1999). As such, all firm performance may be interpreted as a function of controllable factors (e.g., strategies) and myriad uncontrollable factors. This perspective is consistent with the statistical concept of explained and unexplained variance.

Second, this dichotomy discounts the possibility of mutual causality, a situation whereby cause and effect are intricately interwoven and cannot be discretely identified (Dent, 2003). Hence, what looks like simple cause and effect may be reciprocal causality. Many researchers acknowledge a role played by some form of 'luck,' but delineating its contribution to the strategy-performance nexus is challenging, one that has been aggravated by the competitive conceptualizations of the term. A close examination of various perspectives on luck reveals the existence of two different constructs, henceforth referenced as objective luck and subjective luck (Parnell & Dent, 2009).

Objective Luck: The Academic Stance

Defining luck is difficult because of competing connotations in both scholarly literature and daily discourse; the term is generally understood but rarely defined. Because scholars search for causal relationships, they often see luck as a post facto phenomenon that infers random variation. A well-managed firm that performs poorly might be construed as unlucky because of random variation. Researchers seek to explain as much of the variation in performance as possible. As a result, they acknowledge some degree of unexplained variation but presume it to come from factors that may well be identified in subsequent studies.

Many academics view luck from an objective perspective, arguing that it is merely a temporary explanation when causes are not yet fully understood. Hence, objective luck exists when changes in a dependent variable can be linked to changes in an independent variable whose alterations do not appear to follow definite direction, reason, or patterns. Moreover, identifying and measuring luck is challenging in large part because luck is neither what management scholars are trained to analyze nor what they anticipate (Parnell & Dent, 2009). Put another way, the notion of luck is—scientifically speaking—counterintuitive.

Although predictive models in the hard sciences often explain more than half of the variance, a large number of studies in top management journals explain much less than half. Combs (2010:9) queries if we can "really suggest that managers should change their decision calculus on the basis of knowledge that some new variable explains .0025 percent of the variance in organizational performance." Combs (2010:11) rightly raises the concern that "we might fool ourselves into believing that statistical significance is equivalent to theoretical or managerial significance." Yet, interestingly, little or no attention is given to the unexplained variance in most instances.

Encompassing this perspective, figure 1 illustrates the relationships among luck, randomness, and causality as typically understood by scholars (see Ma, 2002; Parnell & Dent, 2009). It assumes that multiple factors influence firm performance, although some could be randomly generated or difficult to understand. Non-random factors include firm strategy, relative size, and industry concentration. Random factors include can be identified ex post facto but are relatively unpredictable, unknown, or speculative. Examples include natural disasters and abrupt, unexpected changes in demand.

Insert figure 1 about here

Performance-measurement systems play a vital role in both the formulation and execution of strategy (Simons, 1991, 1994). While regulatory requirements demand a degree of standardization, it is notoriously difficult to develop a flexible and all embracing performance management system as most strategy-performance research is based on the assumption that performance is a function of non-random factors that can be readily identified, as well as random factors. A strong case has been made for broadening performance management systems to provide for new management practices and processes (Fullerton & McWatters, 2002; Maiga & Jacobs, 2005).

Most scholarly work emphasizes the limited number of factors causally linked to firm performance, giving little or no attention to unexplained variance. Arguably, organizational success or failure could be largely driven by luck. This can be viewed as a problem of causal ambiguity, but scholars do not see this as luck. (Powell, Lovallo, & Caringal, 2006; Rumelt, 1984). Instead, luck occurs when the causality is random but understood.

Many scholars focus on the bottom right quadrant of figure 1. When non-random factors are presumed to influence performance, they call for additional research to fill the void. Put another away, scholars seek to move issues or constructs from the research question category to the predictable category.

Two possible states occur when one speculates that random factors are linked to variations in performance. If little is known about the causality associated with random factors, then the realm of knowledge is considered to be unknown, as depicted by the bottom left quadrant. In many instances, a detailed analysis of the situation identifies several non-random factors and/or identifies causal linkages. Theories explaining causal links to performance may

abound, but have not yet reached a point of general acceptance. Hence, a situation generally classified as 'unknown' may be transformed into one of presumed luck, if causality is understood but not readily predictable, or one requiring additional research. Strictly speaking, luck is not a precise explanation for performance in the 'unknown' category. Both good and bad luck are associated with randomness, but not all randomness can be readily described as either good or bad luck.

Subjective Luck: The Business Stance

Unlike scholars, practitioners view luck from a subjective, contextual perspective; they tend to characterize an event as lucky or unlucky when specific, causal factors cannot be readily identified. Whereas scholars assume the existence of a clear, undisputed reality, managers see the environment as overly complex and difficult to predict (Taleb, 2007). They are more likely to attribute outcomes to luck when they do not understand how the outcomes are generated (Adaval, 2006; Amburgey & Baden-Fuller, 2010; Celentani & Loveira, 2006; Stone & Tudor, 2005) or when they are less than desirable (Parnell & Dent, 2009). Indeed, many practitioners see scholars as idealistic (Görling & Rehn, 2008), attempting to "overlay a spurious rationality on a more chaotic reality" (O'Regan et al., 2008:26).

Practitioners also differ from scholars in their approach to decision-making. Whereas scholars seek to identify the best solutions to problem, practitioners often seek quick, workable options. There are differences among practitioners, however. Those with qualitative backgrounds are more likely than their quantitative-oriented colleagues to attribute factors to luck (Adaval, 2006; Musteen, Barker, & Baeten, 2006). Although top managers tend to have a keen understanding about factors associated with superior performance, they are more likely than

managers at other levels to recognize luck as a contributor (Denrell, Arvidsson, & Zander, 2004; Goll, Johnson & Rasheed, 2007; Parnell & Dent, 2009).

What scholars view as unknown or questionable, managers tend to see as luck (Parnell & Dent, 2009). What is seen as lucky or unlucky to one may have been expected or predictable by another, and what is serendipitous for one may be another's misfortune (Ma, 2002). Following this logic, practitioners tend to view an outcome as lucky or unlucky unless they identify a strong degree of causality, order and predictability (see figure 2).

Insert figure 2 about here

Executives and commentators who describe business activity often refer to an outcome as lucky or unlucky when other partial explanations may also be available. As such, what they reference as luck may actually emanate from a variety of complex sources. The global financial crisis that emerged in 2007 provides an interesting example. A number of causes have been suggested, including government and central bank actions, problems with banking regulations, burgeoning national debt levels, and mortgage irregularities (particularly in the United States). Various explanations of the crisis often refer to a 'perfect storm' of contributing factors. Nonetheless, the contemporary use of 'bad luck'—assigning causality for a negative outcome to unpredictable factors–is all too common. O'Halloran and O'Regan (2011) referred to victims of the crisis as unlucky. When financial strains adversely affected revenues in casinos, the phenomenon was characterized as a "three-year bad luck streak" (Washington Post, 2011). In a business advice column, Blastland (2011) recommends that executives stand by their initial judgments in the face of performance declines; many outcomes are simply attributable to luck, the "ups and downs [that are] a routine part of life."

Whether or not countries have been greatly impacted by the global economic crisis has also been discussed as a matter of luck. Basri and Rahadjra (2010) suggest that Indonesia has been much less impacted than its typical economic peers (i.e., Singapore, Malaysia, and Thailand) more because of luck than because of a deliberately planned economic policy strategy. Likewise, in a presentation to the U.S. Federal Reserve Board in March 2011, Cecchetti, King and Yetman (2011) argued that countries less affected by the crisis like China and Australia were lucky because they have more financially closed economies than nations like Japan, Mexico, the United Kingdom. Finally, in noting that Australia has been a participant in other financial debacles—such as ANZ's financing of Opes Prime and Commonwealth Bank's promotion of Storm Financial—it escaped substantial damage from the crisis in the late 2000's more because of luck than because of strategy and planning (Quiggin, 2010).

A firm may also be able to leverage asymmetric information or capitalize on a rival's failure or misfortune. In doing so, its success may be traced to a change in technology, social trends, or government regulation (Ma, 2002). Carmakers in the United States and elsewhere have benefitted from Toyota's brake crisis and the subsequent government investigation (Ramsey, 2011). Nissan, General Motors, and others have received a boost in their efforts to develop electric vehicles because of favorable regulations and higher oil prices.

PRACTITIONER PERSPECTIVES ON LUCK AND THE FINANCIAL CRISIS

To strengthen this article and further understanding of how practitioners perceive the role of luck in the wake of the ongoing financial crisis, the authors conducted exploratory research with senior managers from fifteen major companies in the United States and the United Kingdom. A convenience sample of managers, most with global operations, were asked the following general questions:

How was your organization impacted in *unexpected* ways by the global economic crisis of the past few years?

Did luck, good or bad, play a significant role in this unexpected impact?

What initial actions did your organisation take as a result of the global economic crisis? Why these actions?

Did these actions have the impact that was intended? Did luck, good or bad, play a role in the impact of these actions?

Responses were mixed with most managers unwilling to attribute luck as a significant factor, emphasizing instead the effectiveness of their planning. This is surprising given that the financial crisis was largely unforeseen across the world:

> *"Being in the right place at the right time helped but really you make your own luck". UK Sales and Marketing Director, Manufacturing and Logistics Company.*

> *"No impact, really. I believe you make your own luck". US VP Global IT, Water Technology Company.*

> *"Luck did not play a factor. This was all done by design, with strategy." US VP HR International Food Company.*

It is only in situations where a very specific event that can be identified that luck is seen as an important factor, as in the case of the property company hit by hurricane Katrina:

> *"Yes, Hurricane Katrina was the luck factor. It was also unlucky that a confluence of events occurred. Without Katrina we don't have the mortgage crisis in the United Sates and the other dominoes that followed." US President of Real Estate Company.*

Alternatively, the role of luck is also recognized where changed economic circumstances created a specific market need that could be exploited:

> *"Luck played a very significant role. Both in creating the enhanced need for the product and in changing the spending priorities to drive its procurement...We looked to shift our target market foci to where we thought there would be sustainable spending during the downturn." UK Chairman IT Company.*

The managers were also asked about their perceptions on the role of luck with respect to the success of the decisions made following the crisis. Most emphasized the importance of management effectiveness as the way to address the situation:

> *"Our primary recent action has been to "retrench" and get as lean as possible in all areas. We have shifted our engineering focus to cost reduction rather than premium features. Our business is so dependent on commodity prices that you might say that an unexpected shortage or cornering of the market could dramatically drive up prices, just as a unexpected surplus could cause commodity prices to plummet. However, dealing with variable commodity pricing is and always has been an integral element of our business, so we have a variety of steps we take in these changing circumstances. So, I don't consider fluctuation in commodity pricing a matter of luck." US VP Global IT, Water Technology Company.*

However, others recognised that limited information makes decision-making an exact science:

> *"A further reduction has been made in the number of target markets that the business looks to address during the downturn. The fewer the number of target markets, the more binary are the potential outcomes. As an early-stage business the degree of academic rigour we can apply to the process of choosing which markets will stay and which will go is very limited. Decisions are therefore made on limited data, and rely heavily on business instincts and luck." UK Chairman IT Company.*

> *"Having a meeting with an important customer at just the right time can often be as beneficial as having the right proposition to put to them. Given that I believe history is more often the result of "cock-up" rather than conspiracy, this is not surprising. The important thing is being flexible enough to respond to both sorts of luck...We are now running the business on a much shorter timescale, ready to respond to change at a moment's notice. Although longer term strategic thinking is still done, we no longer think of even an annual budget as necessarily a yard stick by which to measure our performance. The major uncertainty (which is what good or bad luck represents) is what our competitors will do and how they will fare. Will they match what we are doing on pricing? Will one of them withdraw a product leaving a space for us in the market? Will one of them fail, leaving a gap in the market?" UK Managing Director Fast Moving Consumer Goods Company.*

In the wake of the crisis, our research suggests that business plans have been re-assessed, but—as the last quote suggests—nothing can be taken for granted in an increasingly volatile environment. Learning how to manage a business more effectively with regard to unknown factors in these circumstances is in the interests of both business leaders and academics.

SCHOLARSHIP THAT RECOGNIZES DIFFERENT PERSPECTIVES

The world is left with an increasing divide between academic and practitioner views leading to what Kuhn (1970) refers to as a "crisis-provoking problem" (p. 84). Practitioners must make decisions on an on-going basis, an especially precarious proposition in states of global crisis. Scholars cannot move quickly enough to provide causal explanations that can guide decision-making. Many of these conditions are unprecedented and previous research may not help, so scholars usually lag behind practitioner needs. For example, before an actionable prescription for team dynamics is available from scholars, practitioners have already added the dimension of members who come from different countries and cultures. Before that variable can be appropriately addressed, practitioners have added the variable of geographically dispersed team members. If scholars constantly lag in providing useful information, they will become non-players in global business. Some (e.g., Alferoff & Knights, 2009; Woods & Joyce, 2003) contend that this stage has already been reached.

The top two quadrants in figures 1 and 2 are the same for scholars and practitioners. The bottom two quadrants are the source of the crisis. Right or wrong, practitioners will continue to see patterns in latent constructs, an unwarranted overreach from the scholarly perspective. Academics will continue to focus on constructs that are more easily measured, essentially ignoring an important arena of business dynamics 'felt' by the practicing leaders. Getting nearer to a common understanding of 'the truth' requires Mode 2 research, taking a critical realist

approach. Such an approach would start with a dialogue with the practitioner community, designed to lead to agreement on the most important risks in the bottom right hand quadrant of figure one. This would help guide research that would explore these risks further, leading to a further stage of dialogue with the aim of developing a better understanding of the managerial actions that can be taken to manage performance in relation to these risks in different contexts.

The important point is that scholars need to fully understand the practitioner perspective, as well as the theoretical and empirical knowledge in the subject area, if they are to engage effectively with practitioners. As Burke and Rau (2010) note, the relationship between teaching and research has been neglected in considering the academic/practitioner gap. Teaching and research need to be closely integrated in ways that are meaningful to the practitioner community. Scholars have much to offer to support current and future managers in learning how to manage in uncertain and highly volatile environments. Specifically, encouraging practitioners to reflect on the nature of luck, risk and opportunity in their particular contexts, along the lines discussed earlier in this paper.

Consider a case in the United Kingdom emanating from the recent financial crisis; Northern Rock was the first bank in need of government rescue. The bank was a victim of an unpredicted series of events that led to an abrupt end to its wholesale funding of home loans. This outcome could be attributed solely to bad luck. Alternatively, one might surmise that the bank's business model was inherently risky because it was overly dependent on a single source of funding. Arguably, insufficient consideration had been given to the different possible causes of volatility in the environment and their potential impact on this particular business model. An objective and measured scholarly analysis of the organization's strategic position at the time might have exposed the risk. However, without recognition of these risks by key stakeholders--

including bank managers and regulators--and a willingness to institute measures to manage the risks, the catastrophe could not have been avoided.

Management scholars, therefore, have a potentially important role to play in the real world of practice, but cannot make a significant impact unless they are prepared to engage the worldview of practitioners. Crossing the divide can be challenging, but success is possible and has occurred in other topical areas not directly associated with luck. One example where scholarship and practitioner needs have comingled effectively is the comprehensive performance management system known as the balanced scorecard (BSC). Because firms and strategies are unique, each organization requires different types of performance measures and targets (Malina & Selto, 2001; Witcher & Chau, 2007). Popularized by Kaplan and Norton (1992, 1996), the BSC addresses this problem by combining both measures and non-financial measures. Modern performance measurement in general and the BSC in particular both seek to enhance strategy execution efforts (Edwards, 2001). Firms often fail to translate strategy into action because of a flawed performance measurement system (Edwards, 2001). Another example relates to the use of tracer studies to identify organizational processes such as decision-making and seek middle range explanations for organizational phenomena [see Chau & Witcher (2005) for a detailed discussion of the tracer studies]. In this instance, scholarly work (e.g., Atkinson, 2006; Olson & Slater, 2002; Witcher & Chau, 2008) has contributed extensively to our understanding of the management tool in both theoretical and practical contexts.

REGAINING CREDIBILITY AND INFLUENCE

Academic investigations into luck and causality could be pursued in ways that both increase scholarly understanding of the phenomenon and produce research that is meaningful and useful to practicing managers. This will not be achieved through a rigid positivist hard science

perspective (Chau & Witcher, 2005). Kochan and associates (2009:1088) assessed the rebuilding of businesses and institutions following the recent economic crises, contending that 'management researchers will only inform this process if we can frame and broaden the dominant paradigm guiding management research in recent years'. The paradigm that they are referencing 'focuses on pursuing narrowly scoped research topics leveraging available data to achieve publication in top journals'. We advocate that a far more pluralistic view of researchinherent in critical realism is necessary. Critical realism allows researchers to move away from the unrealistic, reductionist tendencies of positivism to accept aspects of interpretivist epistemology, such as the view that the context of social phenomena should be understood and that only first hand engagement with participants reveals the subjective meanings and motivations that lead to actions. A critical realist approach would aim to explain the role of luck in performance through building up an understanding based in the social context of practice and in this way provide evidence that is useful to practitioners.

A significant body of research within the management field takes place outside the positivistic paradigm. However, the fundamental point relates to the way in which the domain of academic research is delineated and the processes of encourage, support and reward for academics. Friga, Bettis and Sullivan (2003:236) suggest that universities need to acknowledge that knowledge creation is not their monopoly and that '…knowledge creation takes place not only in ivory towers, but also in corporate boardrooms'. This point is re-enforced by Starkey, Hatchuel and Tempest (2004), who acknowledge the knowledge creation role of practitioners, but caution that academia needs to adjust to the modern operating environment by developing new models of engagement. Mohrman, Gibson and Mohrman (2001:371) argue that the usefulness of research comes from collaborative, contextual approaches to its design and

interpretation, and suggest that 'perceived usefulness is related to the establishment of interpretive forums where researcher and practitioner thought-worlds are joined'. Hence, knowledge can be co-produced by scholars and practitioners (Van de Ven & Johnson, 2006) in joint research collaborations (Latham, 2007).

There is therefore a strong body of opinion that management academics must change the way they operate quite radically to regain credibility with many practitioners, especially after the recent global financial crisis. However, compromising the distinctive position that academics have in terms of objectivity and depth of understanding must be avoided. Business schools should not seek to become another type of management consultancy. The challenge is to develop models of engagement that allow management academics to work in mutually beneficial relationships with practitioners. There have been a number of suggestions to improve integration of the two, including partnership teams (Cyert & Goodman, 1997), restructuring of academic institutions (Starkey & Madan, 2001, Pfeffer & Fong, 2002), practitioner participation in interpreting research (Amabile et al., 2001; Mohrman et al., 2001), engaged scholarship (Van de Ven & Johnson, 2006), and evidence based management (Rousseau, 2007). The problem is deeply ingrained, however.

Research suggests that the most effective academic/practitioner engagement occurs when academics use a number of different routes to practice, outside of the traditional ones of academic publication and teaching (Hughes et al., 2011). However, the existing systems for academic support and reward strongly encourage a narrow range of behavior focused on publishing in the top academic journals. While the forthcoming Research Evaluation Framework (REF) in the UK does include the requirement for a number of impact case studies, the focus for

individual academics is very much on publication in the top three- and four-star journals. There are limited incentives for academics to work with industry on applied problems.

Equally important is the issue of the transition of academics from a traditional mode to a contemporary one that more fully meets the needs of the post crisis economy. Hughes and associates (2011) found distinct attitude groups of management academics with regard to engagement with practice. A 'willing and able' group already engages, but there is potential amongst those in the 'willing but underexposed' group to encourage and support them in working more closely with practitioners.

In this paper we have demonstrated that in a complex issue such as luck, academics and practitioners have very different perspectives about the role it plays in explaining firm performance. Understanding the practicing manager's viewpoint places academics is in a far stronger position to influence practice. Presuming that causal ambiguity in performance is merely a temporary phenomenon is not helpful. Accepting a plausible role of luck in performance where causal ambiguity exists can help place academics in the manager's world. Scholarship built on such an assumption is likely to be of greater value and relevance to practitioners.

In states of global crisis when academic models are seen as having broken down, academics lose credibility and influence. The potential benefit to managers is of developing better decision-making based on exposure to evidence rather than on unsystematic personal preference (Rousseau, 2007). Researching luck in collaboration with practitioners has the potential to develop new insights of value right across the management community and particularly as a way out of global crisis. But collaboration has not been a priority for management academics over the last twenty years and the institutions and processes that have

developed do not actively encourage this form of academic endeavor sufficiently. It is not sufficient to recognize the need for Mode 2 research; attitudinal change is required on both sides to make it happen. This necessitates a paradigm shift for many academics as they move from the 'traditional' research/teaching academic to a 'contemporary' business engaged academic.

CONCLUSION

The contrasting scholarly and practitioner perspectives on the role of luck and performance reflect distinct frames of reference of management academics and practicing managers (Shrivastava & Mitroff, 1984). They also illustrate a key complexity associated with performance management. If practitioners invoke luck as a partial or complete explanation for various performance outcomes, scholars must consider its role—real or perceived—when seeking to enhance extant performance management systems.

In a similar vein, the competing perspectives on luck and performance also demonstrate why scholarly research can often be seen to be of limited interest and usefulness to the practitioner. Academics continue to seek to uncover causal relationships related to non-random factors despite the fact that these only explain a small proportion of performance. Practitioners—operating in a world of imperfect information and the need to make day-to-day decisions—are less concerned with precise data on a relatively unimportant element of a decision. They prefer to have approximate answers that relate to what they believe are the important factors relating to performance. Interestingly, scholars appear to share the same human tendencies concerning luck when it comes to assessing their own performance. Good and bad luck are frequently invoked when academics seek to publish their work in competitive academic journals (Altman & Baruch, 2008). Following this logic, decision-making can be seen as an art in which the decision-maker's experience and 'feel' are combined to a greater or lesser extent with systematic decision-making

processes. Practitioners are likely to be interested in and swayed by qualitative research and anecdotes that illuminate latent messages that leaders 'feel' so strongly. This is evidenced in the choices of what these individuals read. Popular books such as *Jack: Straight from the Gut* by Jack Welch (2003) can be seen as extended qualitative analyses.

Acknowledging luck's influence on organizational performance does not palliate the contributions of scholarly work. Alternatively, acknowledging the role of risk in strategic decisions—and the subsequent influence of luck in the outcomes of those decisions—provides scholars with a clearer perspective of how managers select one alternate course of action instead of another (Ireland, Hitt & Simon, 2003). Evading the role of luck results in both incomplete scholarly explanations and prescriptions practitioners are likely to find as detached from reality (Görling & Rehn, 2008).

There are a number of reasons why luck should receive greater attention when considering the strategy-performance relationship. Many links between strategy and performance are identified both ex post facto and as causal when luck may have also played a role. Hence, ignoring luck can lead researchers to overestimate the influence of various factors. Moreover, researchers often find what they are looking for (Barney & Hoskisson, 1990; Leask & Parnell, 2005). Scholars have a vested interest in downplaying luck's influence on performance.

In connecting the study of different perspectives on luck and causality with the academic/ practitioner gap, this paper demonstrates that a meaningful understanding of the management of volatility requires a Mode 2 approach, one that fits more comfortably with critical realism than with the dominant positivist paradigm. However, a reorientation of academic institutions is required if effective collaborative work is to take place to the extent required to make a real difference in business performance.

The manager's world is often one where incremental tactics are more important than 'grand strategy', one where the practice of strategy often seems to overlay a spurious rationality on a more chaotic reality, casting doubt on the validity of an overly 'scientific' approach to strategic management. In other words, it includes other factors such as luck.

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FIGURE 1. LUCK, CAUSALITY AND RANDOMNESS: THE SCHOLAR'S PERSPECTIVE

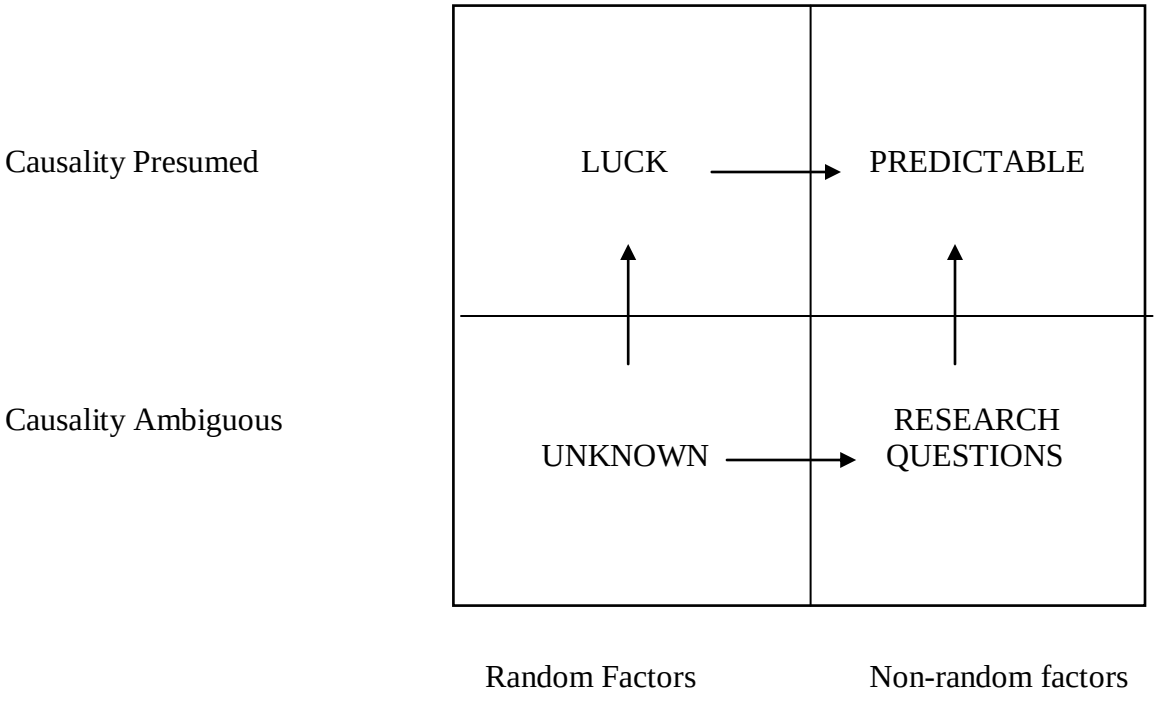

FIGURE 2. LUCK, CAUSALITY AND RANDOMNESS: THE PRACTITIONER'S PERSPECTIVE