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How organizational cognitive frames affect organizational capabilities: The context of corporate sustainability

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ABSTRACT

We draw on the emerging literature on the micro-foundation of capability development to investigate the effects of the relative importance of corporate sustainability in a firm's organizational cognitive frame on the development of distinct organizational capabilities. Based on survey data from 124 Danish manufacturing firms and seven interviews, we find that the relative importance of corporate sustainability in a firm's organizational cognitive frame positively encourages the development of three organizational capabilities, namely, stakeholder integration, market sensing, and organizational learning. However, contrary to our expectation and reasoning, we find that the development of the strategic planning capability is negatively affected. Our findings provide novel empirical evidence and contribute to an improved understanding of the effect of a firm's organizational cognitive frame on the development of organizational capabilities.

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Introduction

What is the link between cognition and organizational capabilities? How does cognition affect the development of organizational capabilities? Historically, research on cognition and research on organizational capabilities have developed in two distinct streams (Eggers and Kaplan, 2013; Laamanen and Wallin, 2009). More recently, however, management scholars have combined these two research streams in an effort to address the cognitive micro-foundation of organizational capabilities (Gavetti, 2005; Gilbert, 2006; Laamanen and Wallin, 2009; Tripsas and Gavetti, 2000).

The need for a cognitive micro-foundation of organizational capabilities arises from the insight that the development of organizational capabilities is highly context-specific and strongly affected by the setting in which those capabilities develop (Gavetti, 2005; Laamanen and Wallin, 2009). Managerial cognition has been identified as one important aspect of this setting. Research on managerial cognition has shown that firms' responses to the environment are driven by managers' subjective interpretation of the environment, which in turn is based on managers' cognitive frames (Barr et al., 1992; Daft and Weick, 1984; Lant et al., 1992; Ocasio, 1997). Following Goffman (1974:21), a cognitive frame can be understood as a "schemata of interpretation [...] rendering what would otherwise be a meaningless aspect of the scene into something that is meaningful." As such, a cognitive frame represents the underlying structures of beliefs, perception, and appreciation through which managers filter and interpret information (Gilbert, 2006).

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Prior research has established that cognition plays a pivotal role in the development of organizational capabilities (for a recent review, see Eggers and Kaplan, 2013). What is important is that a cognitive frame exhibits both a diagnostic dimension (i.e., an assessment of the problem) and a prognostic dimension (i.e., an assessment of the solution) (Eggers and Kaplan, 2013; Kaplan, 2008). The development of specific organizational capabilities can thus be understood as part of the solution that follows from the prognostic dimension of the cognitive frame. The majority of studies have focused on managerial cognition and on organizational capabilities related to technology and/or innovation (see, for example, Eggers and Kaplan, 2013; Gavetti, 2005; Kaplan, 2008; Lavie, 2006; Smith and Tushman, 2005; Tripsas and Gavetti, 2000). Far less attention has been devoted to the interpretive frame itself, the surrounding context, and the consideration of additional organizational capabilities.

Our paper complements and extends prior research by focusing on the organizational cognitive frame in the context of corporate sustainability—an issue that has its roots in a firm's macro-environment. The key research question of this paper is, thus, to explore *how the relative importance of corporate sustainability in a firm's organizational cognitive frame affects the development of organizational capabilities*. In particular, we hypothesize that the relative importance of corporate sustainability in a firm's organizational cognitive frame positively encourages the development of four distinct organizational capabilities of high firm-specific strategic importance (DeSarbo et al., 2005), namely, (i) stakeholder integration, (ii) market sensing, (iii) strategic planning, and (iv) organizational learning.

To empirically investigate our arguments, we draw on survey data of 124 manufacturing firms in Denmark. Using partial least squares structural equation modeling, we find broad support for our hypotheses. We find that the relative importance of corporate sustainability in a firm's organizational cognitive frame positively affects the development of the firm's capabilities in terms of stakeholder integration, market sensing, and organizational learning. However, contrary to what we hypothesize, we find a significant negative effect on the strategic planning capability. To validate our findings, we also conducted seven interviews with top managers of firms included in our sample. The qualitative data support our findings and provide further insight into the link between organizational cognition and organizational capabilities.

Our paper proceeds as follows. The next section provides the theoretical background of the paper. The third section develops the hypothesis. The fourth section describes the research design. The fifth section provides the results of our analysis. Finally, the last section discusses the implications and concludes.

Theoretical background

A cognitive perspective on the development of organizational capabilities

Previous research on cognition has shown that managerial cognition is a central element in the process of organizational capability development (Eggers and Kaplan, 2013; Laamanen and Wallin, 2009). Managers, and indeed all individuals, engage in what has been called a tripartite information processing sequence, encompassing attention, interpretation, and action (Abrahamson and Hambrick, 1997; Daft and Weick, 1984; Dutton and Jackson, 1987; Hambrick and Mason, 1984). In light of this sequence of events, an organizational action—such as capability development—is directly contingent upon the information that managers allocated their attention to, and how they interpreted this information (Ocasio, 1997). It is the cognitive frame that determines to what information managers allocate their scarce attentional resources and how they interpret this information (Dutton and Jackson, 1987; Hambrick and Mason, 1984; Kiesler and Sproull, 1982; Sproull, 1984).

Although the notion of a cognitive frame was originally an individual-level concept, some researchers have argued that members of a firm may share a common organizational cognitive frame (Bartunek, 1984; Prahalad and Bettis, 1986; Rerup and Feldman, 2011). These researchers reason that a cognitive frame is mainly shaped through the firm's top managers, who, researchers have argued and proven in prior research, have the most impact on the firm (Hambrick and Mason, 1984; Kaplan, 2008; Weick and Roberts, 1993). Here, we follow Rerup and Feldman (2011:578) who define a firm's *organizational cognitive frame* as “a set of shared assumptions, values, and frames of references that give meaning to everyday activities and guide how organizational members think and act.” In this sense, an organizational cognitive frame represents a dominant collective cognition about the firm's strategy and objectives, and the opportunities the firm will pursue. Therefore, we believe that, compared with the cognitive frame of any one manager, the organizational cognitive frame has more impact on how specific organizational capabilities are developed. The organizational cognitive frame is superior at guiding the understanding of both internal and external circumstances and thus facilitates and/or limits managerial attention to the accumulation and development of particular organizational capabilities.

Following Helfat and Peteraf (2003:999), an organizational capability is defined as “the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result.” What is important in the present context is that organizational capabilities may evolve and change over time, based on actions such as the allocation of scarce resources to the respective capability (Helfat and Peteraf, 2003; Laamanen and Wallin, 2009). Thus, given that action is the last step in the tripartite information processing sequence, we argue that it is the firm's organizational cognitive frame that ultimately encourages the development of organizational capabilities (Eggers and Kaplan, 2013).

A cognitive perspective on corporate sustainability

Corporate sustainability builds on the concept of sustainable development, which is commonly defined as “meeting the needs of the present without comprising the ability of future generations” (WCED, 1987). In this sense, sustainability in

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