

Leveraging Appreciative Intelligence for Positive Enactment in Times of Uncertainty: A Case Study of a Small Investment Firm

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Abstract: Problem statement: How do we develop a complex understanding of markets and environments? Are markets and environments concrete entities that exist “out there” or are they socially constructed by human imagination and intentional language use? **Approach:** Using a case study approach, the interactions in a small investment firm were analyzed to bring to surface the complex relationship among markets, enactment and learning, often from ambiguous events in unstable environments. Weick’s framework of enactment and components of appreciative intelligence theory are used to explicate how the CEO of a small investment firm engages in intentional conversations and dialogue to reduce cognitive dissonance brought about by fast changing and often conflicting financial data and creates new opportunities. **Results:** Using Weick’s notion of enactment, we showed that managers often create their environments through cycles of perceptions and action whereby perceptions of the environment leads to particular actions and choices by organizations. Such a process made use of two of the three components of appreciative intelligence: reframing to recognize opportunities and engaging in actions to bring the new possibility to fruition. **Conclusion:** The case study showed that enactment and several components of strategic management use the same processes and that an opportunity existed to develop an integrated model between the two perspectives. Results indicated that strategic actions were meaning-laden stimuli that feed selective information to decision makers about market uncertainty. The case study of the investment firm also revealed how the two components of appreciative intelligence, reframing to recognize opportunities and bringing the future to the present, help managers under high stress who operate in fast paced environments make innovative use of ambiguous data and produce positive outcomes.

Key words: Social construction of environment, retrospective sense making, reframing, opportunity recognition, ambiguous events

INTRODUCTION

One of the most common challenges facing managers is figuring out what is going on in the environment or market. For that reason, all organizations, knowingly or unknowingly, incorporate a view of the environment. Most of these models assume that the environment is quantifiable and objective (Scott, 1992) whereby the organizations could adjust outputs and strategies based on their assessment. In this case study, we build on the alternative approach that organizations invent the environment to which they in turn respond. Environment is not only something that is concretely “out there”, but is also created by organizational imagination. For example, Daft and Weick (1984) conceptualized a model of organizations

based on how managers interpret their environment. Two key dimensions of this framework are: (1) manager’s beliefs about the analyzability of the external environment and (2) the extent to which the organization intrudes into the environment to understand it. Figure 1 shows possibilities based on these two dimensions.

In undirected viewing, the organization does not depend on hard, objective data because of the belief that the environment is essentially unanalyzable. In conditioned viewing, though the assumption about organizational intrusiveness is the same, the environment is perceived to be analyzable. In the discovering mode, organizations intentionally search the market with powerful analytic tools. The fourth category, which is the focus of this case study, is called

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the enacting mode. In this space, organizations exhibit an active, intrusive strategy while believing that the environment is unanalyzable. According to Daft and Weick (1984), organizations construct their own environments in this mode. They collect useful information by trying new behaviors and observing what happens. A premium is placed on experimenting, testing and ignoring precedent, rules and traditional ways of doing things. Organizations in this mode tend to create a market rather than finding out whether a need really exists for a product or service.

Enactment involves the bracketing of some experiences from the stream of events and swarm of experiences that surround organizations, paying attention to what is bracketed and using these to enhance meaning (Weick, 1979). This selective process of attending to some stimuli is similar to reframing, the first component of Appreciative Intelligence (Thatchenkery and Metzker, 2006). The third component of appreciative intelligence is similar to enactment. The essence of enactment is that organizations often impose that which subsequently imposes on them. It captures the notion of actively creating the environment rather than solely responding to it (Perrow, 1986; Weick, 1979). The environments organizations face are acts of invention rather than acts of discovery. In other words, “environment” could also be an output of organizing. The focus of this case study is to show how leaders use their Appreciative Intelligence to generate their own environments and thereby create realities to which the organization in turn adapts. Because people can “construct, rearrange, single-out and demolish many ‘objective’ features of their surroundings” (Perrow, 1986), some managers- ‘forceful individuals’ (Weick, 1987)-can select, emphasize, modify and/or allocate attention to particular expectations or types of expectations to which they prefer to be held.

Organizational intrusiveness	
Unanalyzable	<p>Undirected viewing</p> <ul style="list-style-type: none"> • Constrained interpretations • Non-routine, informal data • Hunch, rumor, chance opportunities. External, personal data sources. Much equivocality reduction, reactor strategy, decision making through coalition building
	<p>Enacting</p> <p>Experimentation, testing, coercion, invent environment. Learn by doing. External and personal data sources, some equivocality reduction, prospector strategy, decision making through incremental trial and error</p>
Analyzable	<p>Conditioned viewing</p> <p>Interprets within traditional boundaries. Passive detection, routine, formal data. Internal, impersonal data sources. Little equivocality reduction. Defender strategy. Decision making thorough programmed, problematic search.</p>
	<p>Discovering</p> <p>Formal search, Questioning, surveys, data gathering. Active detection. Internal, impersonal data sources. Little equivocality reduction. Analyzer strategy. Decision making through systems analysis and computation.</p>
	<p>Passive</p>
	<p>Active</p>

Fig. 1: Model of organizational interpretation modes (Daft and Weick, 1984)

Organizing is the task of reducing the equivocality of experience, through a process of sensemaking (Weick, 1979). As mentioned earlier, this sensemaking is accomplished through reframing, one of the components of Appreciative Intelligence. The term equivocality reflects Weick’s appreciation of the subject’s involvement in the knowledge situation, emphasizing his analysis of the actual behavior of the subject and the language rules by which meanings are fabricated. Organizations coping with highly equivocal environments, such as the environment confronting a small investment firm, will encourage numerous cycles of interpretation or “sensemaking”. The application of such rules specifies a body of knowledge which is, in Weick’s view, an output of organizing, namely the “environment” itself.

The case study demonstrates two kinds of enactments: Enactment of limitations and enactment of possibilities. In the former, according to Weick (1979) perceptions of limitations result from a “failure to act rather than a failure while acting. “Organizations seldom recognize that their understandings of limitations are based on presumptions rather than actions-an avoidance of testing rather than a test of skills. By an avoidance of testing, organizations come to the conclusion that constraints exist in the environment and limits exist to their possible responses to these constraints. In essence, enactment of limitations is a process wherein “inaction is justified by the implementation, in fantasy, of constraints and barriers that make action impossible. They become self-imposed restrictions on the options that leaders consider and exercise when confronted with problems” (Weick, 1979). In the latter, the strong presence of appreciative intelligence helps in reframing attention from what is not possible to the bringing out new possibilities and engaging in action to bring those possibilities to fruition, thus creating an enactment of possibilities.

Enactment in a small investment firm: This case study is an analysis of how the concept of reframing and enactment, particularly enactment of possibilities, unfolded in Blue Chip Investments, Inc., a money management firm situated in the Southwestern United States at the time of this case study (Case and Thatchenkery, 1996). The firm managed individual and corporate accounts for a local clientele. The assets under management had grown from \$30 million to over \$110 million in a few years. For individuals, the firm provided “courage” and “confidence” in investing in common stocks and expertise in constructing efficient portfolios. For corporate and pension fund clients, the firm provided “accountability” by sharing the

responsibility for such funds with plan sponsors and other fiduciaries. Investment results had been good largely due to the intuitive acumen of founder Eli Rock and to a 5 year bull market in equities at that time.

The staff had grown from three to six persons at the time this case study was created. Rock, the founder, worked long hours on the phone and in meetings and was the primary “marketer” of the firm’s services. His staff consisted of an administrative assistant, a receptionist, two research analysts and a portfolio manager who checked client reports and stayed current with the publications and regulations in the industry. The introduction of computer technology and new exotic financial instruments had radically altered firm operations. Thanks to his high level of appreciative intelligence, Rock reframed the challenges as presenting him with both new problems and possibilities. His goal was to reframe in such a way that he could tap the potential for further growth without necessarily becoming a “hands on” expert in all areas of the firm’s activities.

The construction of meanings was a primary activity of Blue Chip Investments. The changing economy required continuous interpretation and judgment in the form of affirmation or denial of the firm’s own expectations. The value of investment advice depended upon performance and, therefore, the processes involved in the gathering of knowledge had critical consequences. If the expected scenarios did not come about, some accounts would Quotron device and various online services. The quantity of data was enormous and Eli Rock’s investment decisions were based upon his understanding of this data. Though the Blue Chip was active and intrusive in its relationship to the environment, it fundamentally regarded the environment as unanalyzable and highly equivocal. As mentioned in the model, an organization in the enacting mode must create its own environment by gathering information, trying new behaviors and seeing what happens.

While Rock coped with information selectively, he was careful to sustain equivocality in his interpretations for as long as possible. An unexpected datum rarely evoked a swift affirmation or denial but, rather, provided the occasion for further conversation and social interaction, for further application of sensemaking rules. Confronted with a lower-than-expected producer price index, for example, Rock would call David, his top analyst, into the office for a discussion in which he would offer his tentative interpretation of the event. Rock might suggest that, although this figure was lower than he expected, next month’s index would be higher than expected, thereby

justifying his overall expectations. Rock encouraged David to criticize his position and offer additional and alternative explanations, e.g., wages had risen more slowly than expected and thereby dampening producer price increases. Except in true emergencies, consensus was not required at this early point. Throughout the day, Rock would engage others in conversation on the subject of the producer price index, listening intently both to the other person and to himself, exhibiting a form of mindfulness often seen in individuals with high appreciative intelligence (Thatchenkery and Metzker, 2006). He would call associates in the financial community and would assess the possibility and consequences of being wrong in his interpretation. In this instance, Rock applied few rules, limiting his actions to conversations with selected individuals. As additional data became available, each datum was cycled through the sense making rules anew. Typically, Rock’s behavior included few rules and many cycles.

Sustained equivocality, a reflection of both Rock’s chosen style and the necessities of the environment, had the virtue of forestalling any rash action, allowing Rock to stir up additional variations in the environment which could contribute to a clear possible interpretation of the unfolding events. Usually, Rock’s interpretation entailed no change in investment policy until enough sense had accumulated through additional events in time: “The greater the equivocality, the more times the data may be cycled among members before a common interpretation is reached” (Daft and Weick, 1984). In effect, the initial market change requiring attention, the low index number, was understood through an attenuated process encompassing many cycles. By its nature, the slower process subsumed the event in additional emerging events, reducing the significance and relevance of the original bracketed event. Given the quantity of data confronting all investors, such an incremental methodology effectively screened highly equivocal information controlling impulsive acts rooted in emotions.

As articulated by Weick (1979; 1987; 1988), much of what passed for planning and rational behavior in organizations is largely retrospective and self-rationalizing. Explanations and plans summarize past enactments and, therefore, have a historical character for the organization. Planning may serve many needs, Weick might say, but providing for a future is probably the least of these. The processes for removing equivocality from events, while necessary to the organization, also limit its future adaptability. For organizations such as Blue Chips, the maintenance of equivocality had positive value because sustaining ambiguity helped while adapting to the environment.

Rock's method with respect to economic data was biased toward sustained equivocality and the application of many interpretative cycles. This approach, common among professional investors, promoted challenging and contrary points of views, which engendered further sensemaking activities. Even so, the firm had no policy about interpreting price indices; rather, the standard operating procedure was embodied in Rock's behavior, in the actions characterized by conversation in face-to-face social contacts and in telephone calls. The preeminence of these modes of sensemaking, that is, the preeminence of talk in Rock's behavior, ultimately provided Rock with an enacted environment. Without this social interactive basis for constructing interpretations, Rock would have been unable to reach conclusions all on his own. Indeed, pausing during one of his meetings to "think something out", Rock slapped his head saying: "When I think, I get brain-dead!" Rock was aware that his conclusions were never formulated all on his own, but depended upon sensemaking through social interaction. In effect, Rock's brain was alive when he talked.

In Weick's terms, Rock had no way of knowing what he thinks until he has heard what he says. Confronted with memos, Rock often insisted that the author read the memo aloud to him, or, at least, tell him "what's in it". On another occasion, Rock described the interpretation of economic data as similar to the process of using cues in a well known children's game. In this classic game, children will look to find the image of a donkey in a picture which also contains some obvious forms such as a house and car as well as some inconspicuous figures hidden within the overall line drawing (the donkey in the picture might be part of a cloud, for example). This act of discriminating the foreground donkey from the clearer background figures well depicted the process of bracketing experience and making sense of things.

Social interaction, in the form of conversation, provided Rock with a rich source of information, including vocal tone, facial affect, word choice and body language. Weick (1987) states that contextual sources of information allow us to capture the subtle meaning of events that is generally not visible in more mechanical, machine-compatible information". Not surprisingly, Rock was extremely uncomfortable with computer data and would not sit long at a computer.

Apart from face-to-face conversation, Rock's business life was focused on the telephone. Up to forty yellow phone messages were centered on his desk in a matrix. Approximately 50-70% of his time in the office was spent on the phone. The remaining time was spent in staff meetings, informal conversation with staff and

meetings with clients. On slow days, Rock would wander about the office, engaging in informal talk as though he was waiting for the phone to ring.

Weick describes several senses of enactment. First, he thinks of enactment in the sense of 'decree,' in which meanings are constructed as though by fiat. Rock's interpretation of computer-mediated data provides an example of this meaning of enactment. Confronted with change in the ecology, the new producer-price index, Rock eventually constructed meaning for the number through cycles of talk. In another sense, Weick describes enactment as a kind of charade or play-acting. In this sense, enactment entails experimental behavior in which the actor behaves as if a situation were true. The play-acting serves to uncover possible meanings (creating ecological change, in Weick's terms) and these possibilities encourage further actions. The actor produces variations which, in turn, provide the occasion for further sensemaking through bracketing and construction.

When Rock required a more complete understanding of events and ideas, he would often create a pretense, a drama in which he acted as if a condition were true. Through his social and business networks, Rock was continually active at the organization's boundary, creating new opportunities and new organizational identity. Rough-hewed product ideas were developed out of ceaseless talk and interaction. For example, Rock once decided that small businesses needed planning advice on the deployment of assets given the uncertain economic future. He reasoned that larger firms have staff economists who provide advice on financing decisions, but that smaller firms have limited access to projections and little time or expertise to plan effectively in view of these projections.

Rock's methods in developing this notion were revealing. Rather than planning the service and devising a methodology appropriate to the envisioned clientele, he scheduled a series of meetings with executives and accountants. At these meetings, Rock presented his idea as though it were a near-completed project, a packaged service already in place for the small business client. He told the participants the areas in which Blue Chip would give cogent advice and he worked through several hypothetical examples, as though the methodology had already been developed. In actuality, Rock was marketing a service that did not exist. The meetings were a charade in that nothing much had been done with this project. In fact, it was not even clear at this point if Blue Chip could actually deliver such a service. This was a clear instance of the third component of appreciative intelligence, bringing the future to the present (Thatchenkery and Metzker, 2006).

The pretense of a completed product produced important consequences. First, Rock was able, through face-to-face contact, to assess the impact of his business planning service, identifying possible weaknesses and problems as he presented the service. Secondly, this enactment led to definite contracts for the service from several larger firms, an unexpected outcome. Confident now in the feasibility of the concept and unconstrained by previous presumptions about the potential demand among smaller firms, Rock rescaled his target market to focus on larger firms and to use more quantitative tools in rendering planning advice. Through enactment, Rock created a new product market in the form of new constraints and new opportunities for his firm. As an actor, Rock has produced sense and meaning for a project which appeared, to some, flawed and senseless. The appearance of contracts for the service has, in effect, created the possibility of that very service.

David had been opposed to the concept from the beginning. He thought the project was distant from the firm's area of expertise, which is the application of statistical principles to the management of portfolios. Success in money management had been due, in part, to the statistical properties of carefully selected portfolios. But how can Blue Chip apply population statistics, appropriate to populations, to the individual firm? In addition, Blue Chip had already made a sizable commitment to the expansion of the money management service to the pension fund market, a major undertaking in terms of resources. With a current staff of six, would resources be stretched too thin?

Rock's demonstration of positive feedback, especially the new contracts, however, encouraged David. Brushing aside his doubts about the utility of analytical principles to guide the development of a business planning service, David reasoned that firms are themselves portfolios of assets and liabilities and that the statistical principles applied to portfolios of securities could also be applied either to the population of a firm's operating units or to the balance sheet itself. Such analyses would provide insight into the optimal deployment of assets in the face of uncertainty. Committed by Rock's charade, David was forced to find a coherent approach to the new service despite his own initial misgivings.

These positive results, including the redefinition of Blue Chip's environment, were a result of Rock's way of doing things. They were a result of Rock's enactments of bringing the future to the present. Where the environment previously consisted of investors, markets and securities, the new environment also included businesses seeking strategic planning advice.

Rock reframed the firm's boundaries by enacting possibilities which were then fed back to him as constraints and new possibilities. Furthermore, the contracts legitimized the new service. Rock's belief, then, led to action that led, in turn, to a revised belief, which focused David's energies. As Weick would have it, a goal was evoked by action and not by plan. The firm's understanding of the project bore some resemblance to the initial rudimentary belief; even so, the target market had been altered and the methodology refined and elaborated. It was likely that further pretense and experimentation would continue to alter the firm's comprehension of its goals.

CONCLUSION

This case study supports the view shared by Bluedorn (1993) that enactment and several important components of strategic management become the same thing. The classic definition of corporate strategy: "What business (es) are we in?" becomes a special case of the question, "What environment are we in?" The strategic choice (or default) to engage in a certain business area or not to engage in it would be based on perceptions of the business area and a decision on whether or not to enter it. Similarly, the business-level strategic issue of how to compete in the business will have an impact on the industry, hence enacting, at least partially, the environment in which it operates. Thus, organizational enactment and strategic management address several important common issues and it should be possible to develop a unified framework between the two perspectives.

In Weick's enactment-selection-retention framework, the informational stimuli to which an organization is exposed result from past strategic actions that bracket and construct the environment. This would imply that actions taken by the firm in the past serve to focus the attention of managers and that their perception of the environment is built to a large degree by their observation of the outcomes of past actions. In this sense, strategic actions are prods or experiments which serve to provide information to managers about the conditions in which they operate. Future actions, to the extent that they respond to the environmental considerations, are taken in the context of the firm's enacted environment rather than in the context of any external defined environment.

The case study of Blue Chip Investments also illustrates how the two components of appreciative intelligence-reframing to recognize opportunities and bringing the future to the present (enactment)-help us to understand a small firm with an active, vocal founder

who confronts an unstable and highly equivocal environment. It also brings to focus the seldom discussed fact that environment may also be the outcome of organizing as opposed to the commonly held view that it is “out there” to begin with. It is not clear, though, whether the “enactable” nature of this firm’s environment is a function of the firm’s size, characteristics of the industry, style of the individual entrepreneur, or a combination of these. We do not know if enactment also fits larger firms with less active founders, in more stable environment. Yet, it is safe to assume that in small organizations, an analysis based on appreciative intelligence and enactment theory will bring about an enlightened and newer understanding of the relationship between organizations and their environment.

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