WHEN AN ORGANIZATION DECLINES DESPITE ADDRESSING ROUTINE AND RESOURCE INERTIA: CASE STUDY FROM JAPAN

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Abstract - The purpose of this research is to clarify why an organization declines even after it allocates new resources and promotes the transfer of authority on operations in the event of a threat. Research has revealed that when an organization faces a threat, resource rigidity decreases and routine rigidity increases. Therefore, if an organization allocates new resources and proceeds with transfer of authority to the job site, can it completely avoid decline? To clarify this question, this research conducts a case study of Japanese textile company Kanebo. After the recession of 1958, Kanebo started to diversify into new businesses, that is, it promoted new resource allocation. Kanebo's managers felt that the future potential of natural fibers, which was its main business until then, was limited and started diversifying into synthetic fibers, cosmetics, foods, and chemicals. In these new businesses, the structures of production and distribution were completely different from those for natural fibers, so each new operation was explored in great detail. At the same time, a divisional structure was introduced, and decentralization of operations was promoted. However, Kanebo started to decline, and eventually collapsed. In other words, the case of Kanebo is the most likely case, with its failure contradicting existing theory. By studying the most likely case, this research will discover new mechanisms and factors overlooked in the existing theory.

Index Terms - Organizational decline, routine rigidity, resource rigidity, Japanese firm

I. INTRODUCTION

The purpose of this research is to clarify why organizations decline despite the allocation of new resources and the promotion of decentralization of routine following a threat.

When an organization is in decline, does it rigidly decline, or does it attempt to innovate or develop new business? Research on this question has led to two conflicting lines of thought: one is threat–rigidity theory (e.g., Staw, Sandelands, & Dutton, 1981); the other is threat–innovation theory (e.g., Miller & Chen, 2004; Mone, McKinley, & Barker, 1998; Smith & Tushman, 2005).

Gilbert (2005) made one of the most important attempts to integrate threat–rigidity theory and threat–innovation theory. He divided rigidity into resource rigidity and routine rigidity, stating that when an organization faces a threat, the momentum of resource rigidity decreases and the inertia of routine rigidity increases. Based on Gilbert (2005), if the assignment of authority to the site can be shifted without adhering to the old routine while allocating new resources, failure can be avoided. This raises the question: are there any companies that went into decline even after promoting the transfer of authority to the site without paying attention to the old routine while allocating new resources? If so, what caused the decline?

To clarify these questions, I conducted a single case study on Kanebo. After the recession of 1958, Kanebo started to diversify its business. In other words, Kanebo reduced its resource rigidity. Meanwhile, it switched to a divisional organizational structure to promote decentralization of operations. That is, it reduced routine rigidity. However, at the time, the capital ratio of Kanebo declined and the company continued to deteriorate. Based on Gilbert's (2005) theory, after reducing resource rigidity and routine rigidity simultaneously, the company should have avoided failure, but it declined anyway. Kanebo's case is a deviation (Eckstein, 1975; George & Bennett, 2005) from Gilbert's (2005) theory. Even in a single case study, if the case has is the most likely case, we can discover new variables and causal paths that have been overlooked in existing theories and make further theoretical contributions (George & Bennett, 2005).

II. LITERATURE REVIEW

Research on the organizational decline phenomena of individual organization has increased since the late 1970s (Greenhalgh, 1983). Whetten (1980) was the first to research organizational decline and presented the significance of organizational decline research, the definition of organization decline, and so on. According to Whetten (1980), after the Second World War, managers in the prospering American economy were looking at ways to accelerate corporate growth. Researchers were also biased toward studying the growth of companies, and consequently, there was very little research on organization decline. The tide turned in the 1980s when growing competition from Japanese counterparts caused an alarming number of bankruptcies in the American manufacturing sector, and researchers started paying attention to the subject of organizational decline (Cameron, Sutton, & Whetten, 1988).

One of the central theories of organization decline research is threat–rigidity theory. Threat–rigidity theory states that an organization facing a threat from an environmental change takes a rigid stance to improve its efficiency, consequently making it impossible to adapt to the environmental change,

thereby further aggravating the process of decline. As a counter-argument to this, some organizations facing a threat positively utilize innovation (I call it the "threat–innovation theory" in this paper). Threat–innovation theory has not been taken up as a central topic in organizational decline, but has been subject to frequent comparisons or integration attempts with threat–rigidity.

A. Definitions of Organizational Decline

Cameron, Kim, and Whetten (1987) took care to differentiate organizational decline from other concepts. Cameron et al. (1987) defined organizational decline as, "a condition in which a substantial, absolute decrease in an organization's resource base occurs over a specified period of time." To distinguish it from other similar concepts, the following are pointed out. First, the definition does not target the increasing fluctuations in resources upside down but the decreasing trend. Second, it targets resources within the organization, not the resources in the external environment. Third, it does not consider a marginal change in resources, but a considerable decrease. Fourth, the result of the reduction of resources, such as bankruptcy, is not included in the decline.

The conceptual definitions of Cameron et al. (1987) have been followed by many studies (e.g., Carmeli & Schaubroeck, 2006; Mone et al., 1998) including recent research (e.g., Mckinley, Latham, & Braun, 2014). McKinley et al. (2014) differentiated between organizational decline and organizational downsizing based on Freeman & Cameron (1993) for further clarification. According to them, organizational decline refers to an unintended reduction in organizational resources, whereas organizational downsizing refers to an intentional workforce reduction by the management. Additionally, Freeman & Cameron (1993) introduced the periodic requirements from other studies (Barker & Mone, 1994; Robbins & Pearce, 1992) and defined resource decline as taking place over a period of at least two years (Mckinley et al., 2014). Mone et al. (1998) specified which resources could be measured as resources (specific examples include market share declines, financial losses, and decrease in the number of new employees, lesser demand for products, and fewer sales) and defined organizational decline. Further, Barker & Mone (1994) also included decreased ROI (return on investment) and ROS (return on sales). Given these, organizational decline can be defined as "a reduction in the resources of an organization for a period of two or more years."

B. Organizational Decline Research

When an organization faces decline, does the organization increase its rigidity and decline, or does it try to innovate or develop a new business? There are two conflicting lines of thought on this question. One is called the "necessity is the mother of rigidity" school of thought and the other, "necessity is the mother of invention" school of thought (McKinley, 1993). The former is based on the threat–rigidity theory of Staw et al. (1981), while the latter is based on the behavioral theory of business (BTOF) of Cyert and March (1963) and prospect theory (Kahneman & Tversky, 1979; Tversky & Kahneman, 1974; 1981; 1992). " Necessity is the Mother of Rigidity" or Threat–Rigidity Theory. Staw et al. (1981) were the first to discuss threat–rigidity theory. At each level in the organization, they presented a framework for the response to the threat. When an organization faces a threat (a decline in business performance or a change in the business environment), the management tries to cope with the threat by expediting decision making to improve information-processing efficiency. Thus, it becomes possible to promote formalization of procedures in the organization. Costs are reduced to preserve resources, and new investment is suppressed (Staw et al., 1981). The similar idea was already pointed out by Tsouderos (1955) and Ford (1980). Thoderos (1950) argued that when the organization is declining, the number of personnel in the central administrative department increases. Ford (1980) discussed that formalization, decentralization, and strengthening of management is done when an organization is in decline. A management faced with threats dislikes uncertainty, and makes decisions according to past customs and experience (Barker & Mone, 1998; Staw et al., 1981). The simulation tests of Gladstein and Reilly (1985) demonstrate that a high level of threat limits information processing and increases perceived stress. In the event where members in the organization must respond to time pressure, (1) discussions in the group decrease, (2) diversity of communication channels increases, which results in a channel being used less frequently than before, and (3) the amount of information available for decision making decreases. Cameron et al. (1987) targeted the education industry and opined that organizational decline constrains innovation and supports the threat–rigidity theory. D'Aveni (1989) revealed that as an organization declines, it tends to improve efficiency and centralization. McDonald and Westphal (2003) demonstrated that information networks utilized by the Chief Executive Officers (CEOs) of low-performance companies accelerate further decline. The CEO of a low-performance company has social exchanges with other executives in the same industry and personal friendships (with such connections sympathizing and suppressing bad news). The CEO tends to obtain advice from such people. As a result, there are no changes in the corporate strategy, and the decline continues.

"Necessity is the Mother of Invention" or Threat–Innovation Theory. Based on the BTOF theory by Cyert and March (1963) and prospect theory (Kahneman & Tversky, 1979; Tversky & Kahneman, 1974; 1981; 1992), there are studies that demonstrate that threats are an opportunity for risk preference and

innovation. These studies argue that an organization that increases its risk preference and innovates as a response to threats will restore its performance. Bowman found a negative correlation between a firm's risk preference and returns (Bowman, 1980) and firms become risk seeking if the returns fall below the industry median (Bowman, 1982). Based on Baumann's studies, several other studies have conducted quantitative surveys and arrived at the same conclusions (e.g., Fiegenbaum & Thomas, 1988; Jegers, 1991). According to Mone et al. (1998), investments in innovation are promoted by firms with declining performance becoming risk seeking with further losses. Conversely, high-performance firms might look at investing in existing products and services with low risk to retain the business structure (Smith & Tushman, 2005). Likewise, Miller & Chen (2004), in their research on the aviation industry, focused on the inertia created by past experiences. In their research, firms with better past performance followed the traditional strategy and are not able to respond to changes in the market environment.

Attempts to integrate. Several attempts have been made to integrate or compare threat–rigidity theory and threat–innovation theory. Barnett and Pratt (2000) reviewed case studies and discussed how and when crisis generates flexibility (or change) rather than rigidity in an organization. According to threat–rigidity theory, important decisions are made at higher levels of the hierarchy. The underlying assumption is that authority should be gathered at the highest level of the organization to minimize the risks of errors and losses. According to Barnett and Pratt (2000), unrestricted information processing and decentralized control processes occur under the conditions of autogenic crisis because the source of external threats (1) is eased by internal actors, (2) is more latent than manifest, and (3) there is sufficient time to allow both short-term adaptation and long-term learning. Furthermore, (1) flexibility allows the top management to respond to potential threats rather than explicit threats, (2) encourages generation of knowledge rather than constraining information, and (3) promotes decentralization rather than strengthening control.

Gilbert (2005) was one of the most important attempts to integrate threat–rigidity theory and threat–innovation theory and the paper received the Best Article Award from the Academy of Management Journal 2005. Gilbert (2005) clarified that inertia in an organization is divided into resource rigidity and routine rigidity. When the organization faces a threat, resource rigidity decreases and routine rigidity increases. In other words, if changes in the external environment are considered threats, resource allocation, such as entry into a new line of business is performed proactively, while routine becomes more centralized and traditional business procedures are strengthened by manuals created for the standardization. The flexibility of the routine becomes impaired and the organization fails to establish operations that suit the new business. As a result, the new business ends in failure. In this research, cross-industry case studies from the US newspaper industry were examined. The responses of newspaper companies to the advancement of the internet in the 1990s were investigated. Gilbert pointed out the consistency with Kahneman and Tversky's prospect theory (Kahneman & Tversky, 1984) considering a decrease in resource rigidity when facing a threat (Gilbert, 2005).

Based on Gilbert (2005), it can be argued that if an organization promotes decentralization while allocating new resources, it can avoid failure. Then the question arises: Has any organization declined even after it promoted decentralization without paying attention to the old routine while allocating new resources? If so, how and why does the decline happen?

III. METHOD

To clarify the above questions, I conducted a single case study on Kanebo. Anticipating failure, the managers of Kanebo, during the 1957-58 recession, felt that the future potential of natural fibers, which had been the main business of the firm until then, was limited. After the recession, Kanebo started diversifying into new businesses, such as synthetic fibers, cosmetics, food, and medicine. In the new businesses, the structures of production and distribution were completely different from those of the natural fiber business, so each new operation was explored in detail. Further, in 1959, the divisional organizational structure was introduced, and decentralization of each division was promoted. However, Kanebo's capital ratio, already in decline, fell even further, leading to bankruptcy.

Based on Gilbert's (2005) theory, Kanebo should have avoided failure as it reduced both resource rigidity and routine rigidity. However, that was not the case. In other words, Kanebo's case is the most likely case (Eckstein, 1975; George & Bennett, 2005) as per Gilbert's (2005) theory. Even in a single case study, the failure of a theory to explain such a most likely case make us doubt the credibility of the theory. Thus we can discover new variables and causal paths that have been overlooked and make theoretical contributions (George & Bennett, 2005).

I used the documents available on Kanebo at the Corporate Data Center of the Research Institute for Economics and Business Administration, Kobe University. I visited the Data Center from May 2015 to January 2016 and took 15,432 pictures. In addition, I conducted 18 interviews with 14 ex-employees of Kanebo from August 2015 to October 2016. For confidentiality reasons, I cannot reveal the individual profile of each interviewee. I interviewed a wide range of employees who joined the company between 1946 and 1991, including several employees who were

experienced officers. The interviewees were from various departments and business divisions. The average time for an interview is about three hours per person. The interviews were recorded as much as possible with the permission of the interviewees, but where recording was impossible, manual notes were taken. The interviews of professor emeritus Tetsuya Kuwabara of Kobe University, the autobiographies of Kanebo OB, and other secondary resources were also utilized.

IV. CASE STUDY

A. Diversification after threat of recession and resource allocation to new businesses

Kanebo originally began as a cotton spinning business and until the recession of 1958, it mainly spun natural fibers such as cotton, silk, wool, and rayon. Since the 1950s, chemical fiber textile companies, such as Toray, had been promoting the commercialization of synthetic fibers in Japan. However, Kanebo persisted with cotton spinning and lagged in switching to synthetic fibers. However, due to the recession in 1958, the performance of Japanese spinning companies worsened greatly, and Kanebo also faced difficulties in management. At the plant manager 's meeting in August 1958, CEO Itoji Muto conceded that natural fibers will be substituted by synthetic fibers and stated,

"It can be concluded as follows. The way the Japanese textile industry goes is torecruit comprehensive power both technical and sales with comprehensive power of cotton, synthetic fiber, synthetic fiber, silk, wool, etc. without relying solely on cotton. It is coming to a revolutionary period where we must pioneer our fate" (Kanebo documents No.407-35-14).

Natural fibers were being increasingly substituted by synthetic fibers in Japan.

After the end of the recession, the management was divided on the the long-term strategy. As diversification is highly risky, many directors were of the opinion that the existing natural fibers and spun rayon should be retained and that the company should focus on providing stable management. Ultimately, like the Japanese economy that had entered a period of rapid economic growth, the management decided to orient itself toward scale growth.

The limits of cotton spinning had been recognized even before the recession and Kanebo had already started the production of luxury clothing items using blended fibers and interweaving. After the recession, the Japanese economy started to shift from labor-intensive industries to capital-intensive industries (Kanebo documents No.407-36-1-2). To achieve scale growth, Kanebo focused on capital-intensive synthetic fibers. Along with an entry into synthetic-fibers spinning, it ventured into non-textile fields such as cosmetics (Kanebo History Compilation Room, 1988, p.641). These changes were part of the "Greater Kanebo Construction Plan" that was put into place in June 1961.

At the time, research on nylon, polyester, and polypropylene continued at the chemical laboratory of Kanebo. Toray and Teijin, which had been granted exclusive patent rights in Japan by the ICI (Imperial Chemical Industries) company, were leading in Polyester commercialization and there were no new entrants in the market (Japan Chemical Fiber Association, 1974, p.619). In addition, technical problems were left for polypropylene. Toray, which had earlier introduced the DuPont technology, had a highly profitable nylon business (Fujii, 1971, p.205). There was also an expectation of a drop in raw material costs at the time (Japan Chemical Fiber Association, 1974, p.780). This led Kanebo to substitute its silk business with nylon. At that time, it was said that "we enter nylon business with the fate of our company" about entering nylon (Kanebo documents No.409-122-9-4). There was a strong sense of crisis in relation to the conventional business composition, and there was strong determination to change the business composition.

To commercialize nylon, Kanebo introduced the technology of the Italian chemical company, Snia Viscosa and began production in 1963. Kanebo had been aiming for fiber blending using multiple fibers and fiber integration with interweaving. This vision was called the "cocktail and symphony of fibers." Hence, when Kanebo ventured into synthetic fibers, it decided to commercialize three large synthetic fibers (nylon, polyester, and acrylic). Under the circumstances, this was the predefined route to venture into polyester after nylon (Kanebo History Compilation Room, 1988, p.750). Kanebo introduced polyester technology from Snia Viscosa and started production in 1968. In 1972, Kanebo started the acrylic business using the technology from Snia Viscosa.

Kanebo obtained the technology from Snia Viscosa for all three major synthetic fibers. However, this technology was not directly linked to the establishment of stable quality and production technology and adaptation in the domestic market.

Especially in relation to nylon, the product was not suitable for the domestic market at the time due to differences in physical properties. Additionally, the acrylics business was a result of excessive emphasis on production efficiency improvement at the stage of designing and constructing the production process at the company, aiming for the early expansion of production scale, caused deterioration of quality. Kanebo’s acrylics were inferior and bulky and sales were sluggish for a long time.

The improvement in the quality of Kanebo’s synthetic fiber products was not a smooth process. For example, nylon was unsuitable for false twist texturing, and there was no cooperation between the manufacturing and technology processing departments within the

nylon business, which impeded the improvement of quality. In polyester, although problems of color tone were solved by developing a direct continuous polymerization method in 1973, getting a pilot plant investment application approved was both difficult and time-consuming. Investment feasibility was determined by the planning office. Although priority was given to investment in the expansion of production facilities during a tough financial situation, it was difficult to obtain approval on applications for investment not directly related to production, such as investment in R&D.

The synthetic fiber business of Kanebo struggled not only in terms of technology and quality, but also in sales. When Kanebo entered the synthetic fiber business, the textile and knitting market was already dominated by the pioneers Toray and Teijin, and Kanebo being the late entrant was unable to fully exploit the domestic sales channels. As a result, Kanebo could not promote contract manufacturing processing on commission, which generated high value-added products, and the proportion of yarn sold at a low profit directly to trading companies was high. Meanwhile, after the entry into synthetic fibers, Kanebo regarded itself as a comprehensive textile manufacturer with six large fibers, namely cotton, silk, wool, nylon, polyester, and acrylic. Top managers of Kanebo repeatedly emphasized "Our company's proud identity as the world's only manufacturer of the six major fibers" (Kanebo documents No.409-122-9-2).

For example, some textile manufacturers complained that although there were various fiber product departments in Kanebo, they did not know which department to consult. Thus, although the manufacturers used Kanebo's nylon, they had to use other companies' cotton yarn. Furthermore, one middle manager said:

"Each department has excellent products and technologies, but we have received impressions that it is not yet consolidated as company-wide information, and even from the consumer's side. There are various divisions in this company, but they are not understood as a total" (Kanebo documents No.409-143-20).

Although Kanebo proclaimed itself as the "the world's only manufacturer of the six biggest fibers," it could not fully demonstrate its strength in actual sales.

B. Liability of Divisional Organizational Structure

Divisional Structure in Kanebo. Kanebo diversified its businesses after the recession in 1958, and changed to a divisional structure. From May 1959, divisions of cotton, silk, wool, and so on were created. Each division was a separate profit center and had high a level of independence in routine operations (Kanebo documents No.409-143-29).. While temporary measures, such as wage cuts during recession were called "emergency measures," fundamental structural reforms were called "permanent measures." The purpose of introducing the divisional structure was to clarify the profit responsibilities by improving the independent profitability of each business (Kanebo documents No.409-126-1-4). In the divisional structure, personnel changes between business divisions were limited. Overall personnel transfers were suppressed so that specialists could be trained for each job (Kanebo documents No.409-140-23). The CEO Junji Ito, who succeeded Itoji Muto, stated,

"I think middle managers must be like a specialist. Even if he or she gets to know many things before he or she becomes a middle manager, it does not mean he or she knows things truly and deeply. The middle manager should be a true veteran. We train specialists up to a middle manager, and when he or she becomes the department manager then he or she should be trained as a general manager " (Kanebo documents No.409-143-29).

"Personnel change between business divisions" used in this paper refers not only to the movement of people between the major business divisions, such as the textile division and the cosmetics division, but also between business divisions in product units, such as cotton division, nylon division, and polyester division within the textile division. The human resources department did not make cross-sectional personnel changes and each business division had the authority to make personnel changes inside the business division. As a result, there were many personnel changes within each division, especially at the level below the middle manager. In particular, for each fiber, emphasis was placed on maintaining relationships with trading companies that are counterparts, and there were few personnel changes. Technical officials engaged in research were also transferred between the laboratory and technical departments within each business department. The technical workers said that the change was more limited from the perspective of securing expertise, and even when they were moved, the expertise level was considered. Meanwhile, in the administrative divisions, such as the planning department, accounting department, human resources department, and labor department, the policy was for a change every 3 to 5 years within the departments. Newcomers, who were university graduates, were assigned to the factory. After having taken charge of labor management, some of them who were considered excellent were transferred from the factory to these administrative departments. After the transfer to the administrative department, such employees moved on the transfer cycle within the administrative departments.

Insufficient Cooperation among Departments. Since each business division was an independent profit center, it could independently manage its personnel affairs. Such a divisional structure hampered cooperation among departments. Each product division produced and sold independently (Kanebo documents No.409-143-16).

Since it was difficult to agree on a unified customer response between business divisions, one middle manager stated,

"There are carpets, curtains, wallpaper, houses; there are also textiles. The area manager, beauty adviser, or dealer should recognize the demand for such things. I think we should respond by coordinating well with each business division. However, at present it is difficult to show such comprehensive power" (Kanebo documents No.409-143-23).

The insufficient collaboration between business divisions was not only limited to domestic sales, but also in overseas business development. One middle manager engaged in overseas business stated,

"If you look at the business of Kanebo, I think that it is time to think about new business development in the Asia-Pacific region. However, there is a strong thought in this company that 'business should be completed with risk taking in a business division'" (Kanebo documents No.409-143-27).

One manager in charge of selling polyester said as follows.

"There are six major fibers as products of Kanebo. I think that combining these six to create a synergistic effect will be a major advantage for Kanebo. Although some customers have told us, 'Kanebo has all the fibers and the expectation for this is very large,' the wisdom for responding to such demands has not come. One thing to be considered is that it is very difficult to integrate distribution because each business division has a separate distribution route" (Kanebo documents No.409-143-23).

Kanebo, as a comprehensive fiber manufacturer, produced six fibers—cotton, silk, wool, nylon, polyester and acrylic. However, due to the barriers between the business divisions, these characteristics could not be projected as strengths in real business development.

In the textile fiber business of Kanebo, each business had a small scale. Since the synthetic fibers had the disadvantage of late entry and problems with quality, they performed poorly. Under such circumstances, Kanebo's distinctive advantage of stocking all six major fibers, which had been the only strength, was not fully exploited because of the divisional structure.

Further, within the business divisions, from the perspective of training specialists, the personnel changes between the manufacturing department and the engineering processing department, and between production-related departments and the management and sales departments were limited. This created a liability, such as lack of cooperation among departments within the nylon business division and hindered quality improvement.

The rigid personnel policy and professional orientation were also a cause of technical problems. As mentioned earlier, the planning department was responsible for judging the feasibility of investment applications not only in each division but also in the laboratory. Its role was primary screening. Investments in research and development, which did not directly lead to production expansion, tended to be dismissed by the planning department.

Fortunately, investments for the pilot plan construction for direct continuous polymerization of polyester did pass the screening and contribute to quality improvement. However, it took more than a year to pass through the screening stage. Research at the laboratory in Kanebo for the development of synthetic fibers for industrial applications started early. However, investment in this area did not last long and as a result, Kanebo trailed behind Toray and other companies (Kanebo documents No.409-122-9-6).

A technical expert at the time pointed out that investment in research and development in Kanebo was insufficient and lacked a long-term perspective because the planning department did not fully understand the importance of R&D (Sato, 1990). As mentioned earlier, not only were personnel transfers in the business divisions rigid, but personnel changes in the administration department were similarly restricted. In the administrative divisions such as planning, accounting, personnel, labor, and general affairs, personnel changes were made only within each department or between these administrative departments. The employees from research and technology were rarely transferred to the planning department. As a result, these personnel changes caused investment in R&D to suffer.

Strict Profit Responsibility and Window Dressing. In the divisional structure, the profit responsibility of each division was clear and the profits of each business division were compared. As a result, the unprofitable divisions were strictly being held responsible. This was particularly noticeable during the recession. At the Structural Depression Response Committee on October 31, 1974, many officials expressed the following views on the cause of accumulation of defective inventory. " Even if production is adjusted by shortening the operation due to inventory reduction, the fixed cost burden cannot be avoided. Since the profit responsibility of each business division is clear, we hesitate to adjust production by avoiding short-term loss, resulting in the accumulation of defective inventory" (Kanebo documents No.409-143-17).

In Kanebo, although each business division was a profit center, the divisions had no say in the performance targets and were forced to accept the targets set by the top management. In establishing performance targets, although each business division compiled initial drafts, the ultimate decision was taken by the CEO. The CEO often imposed higher

performance targets than the draft targets. For example, high performance targets were set for the "110 plan" since 1986. Under these circumstances, although some executives were skeptical regarding the performance targets under the "110 Plan," it was deemed taboo to complain to the CEO about the targets.

The long-term plan and sales, profits, and investment for each fiscal year were decided by the CEO, but were "to be carried out by the (responsible officers)," and strict executive responsibility was imposed and emphasis was put on strict personnel treatment depending on the outcome (Kanebo documents No.409-143-14). At a meeting of the Board of Directors, CEO Junji Ito stated as follows.

"The success or failure of management must be questioned with the outcome. No matter what you say, it is inexcusable unless the outcome is sufficient. Every division must achieve the targets of management" (Kanebo documents No.409-143-14).

" I have instructed each executive officer to exercise responsible authority on behalf of the CEO…What is responsibility and authority in the first place? The answer is how the division you are responsible for contributes to the company. In other words, the only important thing is how you can make a profit. According to this, it is self-evident what the responsibilities and authority of each officer are" (Kanebo documents No.409-143-14). "Each division should build a system that runs alone thoroughly without concern for balance with the other divisions and coordination within the industry and fulfill the responsibilities imposed on it based on performance-based principles. Those who do not have the conviction to achieve, please give up their heavy responsible positions" (Kanebo documents No.409-143-17).

At the time, Junji Ito also made it clear to the Board of Directors the terms of director appointments based on performance principle.

" As already clearly stated, the qualifications as executive officers should be judged by 1) how much he/she has contributed to improving performance (sales, profits) during the term of office or in the past two years, 2) how much he/she currently contributes, 3) whether he/she can contribute to the development of the business inthe future" (Kanebo documents No.409-143-17).

The executives of business divisions performing badly are sometimes severely chastised by Junji Ito. For example, "Why is it in the red? It is in the red because you did not make efforts!"

In business divisions that were under-performing, fictitious sales and profits were recorded to create the illusion of business performance. More specifically, methods such as "push-in sales" and "circulation transaction" were used. These actions were out of the control of top management and the central administrative department. The accounting staff in each business division handled the processing of imaginary sales and profits. Each division had a manual for carrying out these processes. The central administrative department and top management did not enter into detailed processing in each division .

The creation of fictitious accounting entries thus led to the loss of Kanebo's resources. For pushed-in sales, items that were actually unsold accumulated as bad inventories. With circular transactions, inventory outside the book continued to increase due to the addition of commission fees and the addition of new transactions. Since the defective bad stock is originally produced using the company resources, bad inventory causes resource waste, unless there are actual sales. Further, in circulation transactions, the cost added in resales between trading companies also became a cost. If profits were added, the corporation tax was an extra cost. As a result, even if sales were growing and profits were recorded, there was a deviation from the actual cash flow. Kanebo increasingly borrowed from banks to support the real cash flow. Indeed, among the borrowings, the ratio of borrowings for working capital continued to rise year after year since 1971. The large amounts of borrowing thus generated another significant cost of interest payments. Most of the operating profits earned in the businesses were devoted to interest payments. In fact, the total operating profit from 1977 thorough 2003 was 330,533 million yen, while the total amount paid as interest was 313,829 million yen. The window dressing to hide the actual business results cost the company 280.7 billion yen. Hence, the resources of the company continued to decrease, which led to a decline.

DISCUSSION

After the recession of 1958, the top management of Kanebo decided to diversify into new businesses including synthetic fibers. In other words, it flexibly allocated resources. Additionally, with the diversification of business, a divisional structure was introduced in 1959 and decentralization of operations was promoted. However, the introduction of the divisional structure and decentralization was counter-productive. Employees of the business divisions focused on the products of their own division, while cooperation with other divisions reduced. After entering the synthetic fibers business, six fibers, together with existing natural fibers, were regarded as the company's strength. Instead, they became an obstacle to demonstrate its strength. Personnel changes were obstructive. There were hardly any personnel changes between the research or technology departments and central administrative departments. Personnel changes in the administrative

department, including in the planning department, were made between departments or within the administrative departments. The planning department was responsible for investment decisions, but most of the members of the planning department were from the factory who were earlier in labor management, and then transferred to the administrative department. Members of the planning department emphasized investment in factory production facilities in making investment decisions, and neglected R&D investment, resulting in a delay in switching to industrial applications. The divisional structure was introduced to strengthen the competitiveness of the business after the recession of 1958. However, it contributed to a slump in the synthetic fiber business, and also hindered the development of industrial use of synthetic fiber technology. In other words, the introduction of the divisional structure with decentralization of operational routines generated barriers between the divisions and departments, resulting in a decline in business competitiveness.

Under the divisional structure, performance targets could not reflect the intentions of the business division. Top management decided on performance targets and requested the division to achieve it. By introducing the business division system, the profit responsibilities of each division were tightened. In other words, while the formulation of performance targets was centralized, the means of achieving them was decentralized to each division. Requests from top management for achieving performance targets became stronger, and in under-performing business divisions, it led to window dressing.

According to Gilbert (2005), when managers recognize threats, resource rigidity decreases, while routine rigidity is enhanced by promoting centralization. As a result, newly allocated resources of businesses eventually fail. Kanebo also reduced resource rigidity after the threat and actively allocated resources to new projects. However, Kanebo's case is different from Gilbert (2005) in that Kanebo shifted to a divisional structure and promoted decentralization of routine. According to Gilbert (2005), Kanebo, after reducing resource rigidity and routine rigidity, should have succeeded. One of the reasons for Kanebo's failure is that business divisions did not collaborate as a result of decentralization. Gilbert (2005) had not analyzed problems concerning cooperation between projects, but it can be considered that in cases where collaboration between business divisions involves competitiveness like in Kanebo's case, excessive decentralization and lack of coordination result in failure. Another cause of Kanebo's failure was the authority structure of performance management. The business divisions of Kanebo did not have a say in formulating performance targets, and the business targets unilaterally set by top management did not reflect the ability of the business divisions. In other words, the formulation of performance targets was highly centralized and rigid. Meanwhile, with regard to the results reported from the business division, the central management did not practically manage it, that is, performance management was decentralized. In other words, rigidity had decreased. In this way, it can be considered that the change in the authority structure concerning performance management resulted in the window dressing by the business divisions. Gilbert (2005) also did not analyze such a perspective on the authority of performance management, and the distorted actions, which can cause a decline.

CONCLUSIONS

The theoretical contribution of this research, based on the case of Kanebo, is the process of decline that has been overlooked in the existing research on threat–rigidity, threat–innovation, and the integration of the two (Gilbert, 2005). According to the theory of Gilbert (2005), Kanebo, which reduced resource rigidity and routine rigidity after the threat, should have avoided decline. However, Kanebo went into a decline. Hence, this case deviates from the existing theory. In this research, I analyzed the case of Kanebo and found a problem of collaboration among its business divisions due to decentralization and a change in authority structure concerning performance management, aspects that were not addressed in Gilbert (2005).

The following points can be considered the practical implications of this research. When entering a new business, Gilbert (2005; 2006) and other exploration–exploitation studies (e.g., Benner & Tushman, 2003; Christensen & Bower, 1996; Christensen, 1997; Raisch & Birkinshaw, 2008) have considered that it is preferable to systematically divide a new business unit from other units and make it independent. However, when thinking about the synergy between businesses, it is not always desirable to create total independence. While respecting the new attempts and innovations made in the new business, there should be a precise organizational design that collaborates on specific operations, such as sales. Further, regarding performance management, it is necessary to pay attention to the following points. Ignoring the intentions and actual conditions of the business divisions by a centralized management while formulating performance targets can be a cause of inappropriate transactions. It is necessary to adequately adjust the intention of top management or administrative department at the center and the intention of business divisions. Additionally, it is necessary to manage outcome performance transaction in the central administrative department across the organization without delegating to the business divisions.

One limit of this research is it is a single case study. The mechanism found in this study is only one pattern. It is necessary to accumulate more case studies to conduct a more detailed discussion toward theoretical integration of threat–rigidity theory and

threat–innovation theory.

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