

Contingency in Corporate Communications. Risk Perception in Organisational Change

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Introduction

This working paper explores the problem of contingency in corporate communications using theoretical contributions in the field of organisational communication.

The central argument presented here is that contingency in corporate communications cannot be reduced because of the unpredictability of human behaviours or future events. On the contrary, individual risk perceptions are reduceable by means of adaptations to changing work environments. Following a meso-level of analysis one can argue that organisational forces (macro-level) mesh with human activity of decision agents (micro-level). So far, there are reciprocal interrelations between environmental pressures due to unpredictable events and own perceptions of employees and managers who perceive risks because of the unknown future.

Theoretical framework will be applied to a case of merger between two American multinational corporations, 'Procter & Gamble' and 'The Gillette Company'. This inter-organisational collaboration has been chosen as an example of instability in organisational change.

The practical importance of this investigation relates to the implications on learning new skills, behaviours and growth for managers active in negotiating under risk conditions. The exploration of a range of ways in which managers respond to environmental threats is crucial to understand how to reach consensus in changing organisational settings. The illustration outlines some managerial efforts in building up a new corporate culture in post-merger implementation. Corporate values, decision making models as well as corporate oral and written communication are being adapted to fit in the new corporate culture of the combined corporation.

This study can serve as a starting point for further investigations and research applications aiming to understand how managers react to environmental threats and overcome perceptions of risk.

Contingencies in Communication

According to Schmidt the contingencies in communication exist because of two causes: first of all agents have cognitively autonomous minds when they select an option from different alternatives. Then, agents have to mediate between their autonomous mind and the social reality around them. It is in this mediation that social agents become reflexive by observing themselves in their relationship with the environment or the reality around them. The result of these contingencies is an uncertain communicative interaction because in the exchange *alter-ego* there are different interpretations of intentions and meanings of communicative appeals. Luhmann notes ‘*What is jointly interpreted can mean something quite different for each participant*’ (Luhmann 1995, p. 113).

Cognitive autonomy is necessary to guarantee an autonomous selection of options in communicative interaction, which excludes a ‘*communalization between interactants*’ (Schmidt 1994: 118), because “*selections chosen by us are selections which have been chosen by us*”.¹ According to Schmidt selection is contingent, because choices result from an individual selection process.

Selection processes involve the idea of a persistent situation of change, which can be activated either through constant evolution or adaptation to the internal or external environments. It is taken for granted that change is intrinsically uncertain, as is adaptation to the environment. This dynamic perspective of organisational processes supports the view of a necessity for change and consequently of an inherent contingency linked to selection processes. For example, Levinthal (1997) in his analysis of ‘rugged landscapes’ traces a process of change to reach an optimal fitness by considering the space between the selection of an option and the exclusion of the non-selected alternatives as an error term:

‘The organization can search its immediate environment until it has found a superior alternative form or has exhausted the possible forms in its immediate vicinity. [...] Perceived fitness equals the actual fitness plus an error term’ (946-947).

The concept of perception is itself uncertain as it relies on individual construction of reality and on expectations so that a perceived fitness entails an error term because of the contingencies concerned with the human selection process. The error term seems to be the criterion which measures the occurred change.

¹ “*Die Selektionen, die wir treffen, sind die Selektionen, die wir treffen*” (Schmidt 2004: 7, my translation).

So far, contingencies due to the freedom of choice of cognitively autonomous minds are evident in two ways: firstly, the exchange of roles during the communication process – the speaker acts as a hearer and the hearer performs as a speaker simultaneously; secondly, the free-floating appeals of the communicative interaction are embedded with ambiguities. Thus, meanings correspond to multiple possible interpretations of agents, which are constructed as a reaction to open appeals or '*acoustic phenomena*' represented in the classical 'Organon model of language' (Bühler 1990: 30-39). One might argue this constitutes a power relationship where the interactants give and receive signs in a sort of exchange of visions of the world. It is a negotiation of signs among interactants responding to appeals. On this basis, the individual interpretation of signs or the attribution of meaning as a reaction to open appeals is uncertain because '*statement A will never be received as statement A by the receiver*' (Grant 2001: 48). As Grant has pointed out, instability of the transmission channel is given by this exchange of signs between speaker and hearer that are '*fuzzy*' (2001: 47). Fuzzy signs are relevant to the study of contingencies in communication, because they are the vehicles of transmission of communication between interactants, which depend on the autonomous construction of realities. Speaker and hearer exchange their communicative roles during the interaction by performing fuzzy appeals as well as fuzzy interpretations of appeals simultaneously.

Admittedly, the human behaviour is unpredictable and the choice of one option has no guarantee to be the right one. The communicative challenge relates to the reflexive capability of agents to observe contingencies and being open to adaptations in changing environments.

Contingency in Organisations: a Meso-level Analysis

Contingency in organisations can be described through a meso-level of analysis because organisational forces (macro-level) mesh with human activity of decision agents (micro-level). From an organisational perspective the pressures toward stability metaphorically represent the cognitive autonomy, and the environmental pressures represent the social orientation of agents, as previously described.

On a macro level of analysis there are conflicts between the organisational pressures toward stability – useful to the maintenance of a corporate coherence, and the threatening of environmental pressures calling for change and adaptation. All this creates uncertainty because of the unpredictability of future events.

Uncertainties are the standard pattern in communication resulting from multiple factors: unpredictability of future actions/events, autonomy of agents and contingencies of communicative selection (Schmidt 1994, 2004, Baecker 1999, 2003, Grant 2003, 2004, 2007). Different modes of coping with uncertainties (Berger and Calabrese 1975; Driskill and Goldstein 1986; Kasperson and Stallen 1991; Levinthal 1991, 1997; Bradac 2001; Babrow 2001; Tsoukas and Chia 2002; Kramer 2004; Castor 2005; Luhmann 2006; Loch, De Meyer and Pich 2006; Tsoukas and Shepherd 2006) in changing environments relates to the intention to find solutions to perceived risks. According to Zinn (2008, p. 3) the most shared assumption on the concept of risk is its distinction between reality and possibility. Indeed, individual perceptions play an important role in the definition of the level of risks of future events. Risk perceptions exist as a consequence of organizational changes and threats of any kind. Tsoukas and Chia hold the view that organisational change is so pervasive and indivisible that it can be named as 'organisational becoming' (2002: 570), because change is constitutive of reality. Levinthal emphasizes that the persistent variation in organisational settings is the result of both adaptation and selection from a number of alternatives viewed as "*fundamentally interrelated processes of change*" (1991: 144). These studies take for granted that the peculiarity of the organisational patterns is that they never settle down to a stable position, because of continuous adaptation in changing settings.

Examples of organisational change are inter-organisational collaborations (mergers and acquisitions or alliances), cut costs, responsiveness to media threats, responsiveness to competitive threats, responsiveness to consumers' boycott, regulatory changes, leadership changes as well as adoption of new technologies. These are the environmental pressures that are unpredictable events. Crozier and Friedberg note unpredictability is not an exception; it is the starting point to understand limits and real meaning of constraints in organisations (1977: 44).

On a micro level of analysis employees or managers perceive risks in changing settings when they are expected to develop adapted models of behaviour to fit in the new organisational goals, fear of job loss or modified career plans. Risk perceptions exist as a consequence of changes or environmental threats in organisations. In the field of business communication Driskill and Goldstein (1986) have defined uncertainty as "*an interpreted perception*" (p. 45) because there is no shared meaning attributed to organisational actions and events. Indeed, 'Risk is to do with uncertainties' (Taylor-Gooby and Zinn 2006). Perceived risks are a barrier to organisational stability since they create uncertainties because of the unknown future.

Thus, a meso-level of analysis is the appropriate approach to study contingency in corporate communication because of the reciprocal effects between macro forces – unpredictable changes, and micro forces – individual perceptions of risks.

The Corporate experience of ‘Procter & Gamble’ merging with ‘Gillette’

Introduction

This explorative study uses a meso-level of analysis to investigate the interrelations between environmental pressures and human perceptions of risk in changing organisational settings.

The choice of the case of inter-organisational collaboration occurs because mergers and acquisitions or alliances are examples of high instability in organisations. Mergers & acquisitions (M&As) are so unstable events that most of them fail (e.g. Datta *et al.* 1992; Sirower 1997). Prior research finds that inter-organisational collaborations fail because of unmet expectations of employees/managers and unsuccessful post-merger implementation (Haspelslagh and Jemison 1991) or because of conflicts over decision-making and corporate values or perceptions of unequal costs and benefits (Cyr and Schneider 1996). Indeed, M&As are forms of expansion and internationalization that create uncertainty inside and outside organizations by growing business volumes.

Uncertainty inside organisations occur because employees and managers have to be integrated in the newly combined corporation in inter-organisational collaborations (Cartwright and Cooper 1992; Soderberg and Vara 2003) and this causes an amplification of perceptions of risks. Employees feel anxious when it comes to change work routines and work spaces to adapt to the new situation.

Uncertainty outside organisations takes place because of the growth of large scale organisations (Hutter, 2006) which endanger the market of labour, the choice system of consumers or in economic terms, they create anti-trust issues because of the risk of economic monopoly.

This explorative study aims to understand how managers respond to the environmental threats that they recognise and prioritise as important from their point of view. The illustration of the corporate experience of Cincinnati-based “Procter & Gamble” (P&G) in the merger with Boston-based “The Gillette Company” is useful to understand the communicative efforts in building up consensus in changing organizational settings. My objective is to unveil the

nature of noise in the transmission channel P&G–Gillette due to the contingency of matching organisational members of two different corporations.

These difficulties in integrating people during inter-organisational collaborations were known by the management of P&G, who decided to act as fast as possible to reduce the time of transition, which is recognized to be a painful experience (Kohlrieser 2006) for employees and managers. In January 2005 the American multinational company Procter & Gamble announced the acquisition of the American multinational company “The Gillette Company” resulting in a manufacturing giant. This deal combines some of the world’s top brands by creating the world’s largest consumer goods company around the globe. P&G owns a portfolio of approximately 150 brands, ranging from detergents, health care, cosmetics, beauty care, food and beverages, whilst Gillette is best known for its razor business as well as the brands “Oral-B” and “Duracell”. Both companies have products / brands that complement each other although P&G consumer target is oriented to the women segment and Gillette focuses on men’s personal care lines.

About seven / eight months passed in the time between the announcement of the acquisition and the time in which the transition started. During these seven or eight months of transition into the combined company a lot of people prepared and planned all possible details for the moment in which the acquisition would have been confirmed. In order to avoid the anxiety over the unknown future during the phase of transition there has been a lot of pre-planning. This transition phase lasted two years (2006-2007) and it was a big restructuring project of P&G to integrate Gillette people.

In 2008 started the post-merger implementation which is the most difficult phase of the acquisition process because it is the reconstruction of an organisational stability where people and brands of Gillette should finally be integrated into the organisational structure of P&G.

A.G. Lafey, chairman, president and CEO of P&G declares: “*Gillette and P&G have similar cultures and complementary core strengths in branding, innovation, scale and go-to-market capabilities, making it a terrific fit*”². Likewise, J.M. Kilts, chairman, president and CEO of Gillette discusses this combination “*Strength plus strength will equal success as a very strong Gillette combines with an equally strong Procter & Gamble*”.³ These declarations made in 2005 right after the announcement of the acquisition can be confirmed after four years of organisational work to integrate the two companies and implement post-merger

² “P&G buys up Gillette”

³ “Gillette CEO Views Combination with P&G as Leading to New Era of Growth”

performance, useful to the avoidance of failure. Indeed, the overall expected goal attainment in mergers and acquisitions refers to a successful post-merger implementation process.

Post-merger Implementation and Risk Perception

Managers perceive risks because of the uncertainty of the transition process leading to the final stage of post-merger implementation where two separate enterprises are finally integrated into one. Employees try to figure out what their future will be, there is the uncertainty of the retailers trying to understand what the combined corporation will do. There is uncertainty because people have to deal with brands that they have not dealt with before and there is uncertainty because a lot of people have to move location in order to bring the two organisations under the same roof.

Perceptions of risks of organisational members of both corporations are mainly concerned with the uncertainty of job loss or career plans modified because of the career competition with the managers of the merging company. Cartwright and Cooper (1992) declare that mergers are stressful life events. Then, people feel anxious when it comes to change work routines and work spaces to adapt to the new situation. Kohlrieser (2006) declares that people do not resist change, people rather resist the pain of the change.

From an organisational perspective the corporate values of both companies have to be re-negotiated to model a corporate culture which fit in the P&G people as well as the Gillette people. The organisational culture communicates values, which fosters group cohesiveness by sharing the same identity sphere amongst all employees (Modena, 2009). So far, the integration of the top management and middle management was a very big dimension since P&G retained over 90% of the Gillette people that moved into the acquisition. It requires a lot of time in understanding what is valued and important in P&G and in building internal network useful for career opportunities. Gillette was a huge company and has added about 30% extra business to P&G.

It has been found out that a post-merger implementation hinges on the relationship between the products, markets and corporate cultures of the two merging enterprises (Datta and Grant 1990; Haspeslagh and Jemison 1991). It is my aim to describe these relationships useful to understand how the combined company solved the difficult task of integrating people, products and markets. P&G is renowned for the several acquisitions / mergers in the history of the company, such as “Clairol”, “IAMS” and “Wella” where the acquisition of

brands was a strategic priority. Starting from the acquisition of “Wella”, on top of integrating the brands, P&G also started to integrate the people. For example, the specific capability of Wella is the know-how of a group of managers selling products in the salons of coiffure. The uniqueness of the acquisition of Gillette is concerned with the interest in acquiring those capabilities of Gillette people which lack to P&G managers. For example, Gillette has dedicated people that are being visiting the stores and are being working with the store owners to improve the positioning of their brands and to develop specific tools to make the presentation of the brands easier and better for the shoppers. Moreover, Gillette has a major capability in gifting – all the Christmas gifts that were developed as Christmas brands which people start buying for life. This is an example of a specific capability that P&G took from Gillette and integrated into the newly created company. Moreover, there was an expectation of using the technology of one company and the brands of the other company in order to create new business ideas. For example in North America a Gillette shampoo for men has been launched using P&G technology with the Gillette brand name. Co-marketing ideas are being invented by integrating the Gillette razor for women “Venus” and the P&G moisturising anti-aging skincare product “Olay” to provide a full regime to women. The match of brands of Procter & Gamble with Gillette is a competitive advantage as brand strengths are a key factor in a merger. Gillette is also a business that is sold in distribution channels which are slightly different to P&G. For example, P&G has to acquire know-how about new distribution channels in order to run the Gillette brands such as “Braun” and “Oral B” which are sold in the electric channels, in the media market, that were not part of the P&G business before. So far, the business opportunities in this merger are the merged company’s expanded product range allowing also more spaces in supermarkets shelves as a result of more negotiation capabilities with retailers as well as the possibility to invest more money in marketing and advertising.

The effective integration of people, products and markets was possible thanks of the organisational priorities of building up consensus during the transition as well as in the phase of post-merger implementation.

Organisational Adaptations in the Combined Corporation

In-depth interviews have been conducted in March 2009 to executives of Gillette in the British subsidiary of P&G in the phase of post-merger implementation.

There is unanimous opinion about the importance to integrate the two different corporate cultures of P&G and Gillette. According to the managers the areas of major conflicts are the differences in corporate values, decision models as well as the oral and written communication. Morosoni (1998) highlights the crucial role of cultural, organisational and execution aspects in merging companies. Indeed, corporate values, decision making models as well as styles in oral and written communication are cultural, organisational and execution factors that can create contingency in inter-organisational collaborations.

Firstly, from an organisational perspective the corporate values of both companies have been negotiated to model a corporate culture as a result of both corporations. The corporate values of both merged corporations are similar to some extent thanks of their common national origin and their corporate values aiming at a constant openness to changes and a drive for innovation. However, some differences between the two corporate cultures exist and are concerned with their global vs. local orientation of the international market distribution of products or brands. P&G has developed locally focused strategies in the global marketplace to fit to cultural sensitivities, as is the example of the brand “Pampers” (Modena 2005). This takes to frequent negotiations about the right level of interaction between local and global teams which is quite different in the two corporations. Gillette has fundamentally one global brand which is known everywhere so that managers of subsidiaries do not need to adapt to their local markets because they just use the global business model. P&G is rather a mix of global brands like ‘Pampers’ and local ones like ‘Dash’ in Italy or ‘Bold’ in the UK. Today, the integration of the two merging corporations led to a more standardised approach by globe and managers of P&G developed an acceptance and support for that kind of approach.

Then, the communicative capabilities of managers of merging companies are demonstrated in the management of different decision making models. P&G is a multifunctional organisation with different global and local businesses so that the decision process is structured. Consequently, the decision process is slow because of time dedicated to the search of information, preparation of detailed risk analysis and exploration of many focal points. On the contrary, Gillette had a linear organisation where decision making was fast, albeit the risk of making mistakes because of lack of previous investigation. A few key people were involved in the decision process and not much time was dedicated to the search for information to get to the final decision. The speed in decision making was possible thanks of the organisation of few meetings since the final decision was taken by senior managers. The style of meetings was informal, with a focal point but no deep analysis of the long term consequences. This style of decision making had the advantage of fast decision making

although the efficacy was related to short term decisions. On the contrary, P&G managers are used to attend meetings with previous preparation of all details and the decision making process has a more participative character than in Gillette. Many P&G managers attend meetings because they feel part of the process, whilst in Gillette managers feel part of the process through the communication of the senior manager to the subordinates. There's a bottom-up decision process in P&G which reinforces the so-called consensus culture or the importance of extensive alignment in decision making. Drawbacks of this participative style of decision making in P&G are concerned with complicated and bottom-up slow decisions and the workload for involved people is relatively high. There's work overload in the preparation of every options to be considered in the decision process and the negotiation with many people which creates more communicative complexity because of the arrays of focal points. As a result of the combination of these two different decision making models the merged company has created an adapted decision model using the acronym 'PACE' (Process owner, Approver, Consultant, Executor) in order to speed up the process of decision and to create a formal model which give clear directions for action. Every decision implies the participation of one coordinator – the process owner, one approver – the person in charge of the final decision, while one or more consultants or executors are allowed in this decision model. This decision model is the effort to find a balance between the search for predictability and the need to decide in short time (Modena 2008).

Finally, differences in the written and oral communication play an important role in the management of contingencies in the corporate experience of merging two large organisations. The consensus culture in P&G definitely has an influence on the corporate written communication. P&G managers make much bigger use of written communication than Gillette managers, such as memos, documents, summaries and recommendations. P&G managers are trained on how to write documents. The quantity of emails in P&G is also very high due to the participative philosophy of the corporation where more people are involved in the decision process. Moreover, an example of communicative contingency in the oral communication is concerned with the understanding of the company vocabulary, which can constitute a communicative barrier in organisational contexts. Enterprises have a corporate vocabulary which is usually made of short acronyms. These acronyms are exclusively understood by members of that specific company. These are some of the commonly used abbreviations in the corporate communication of P&G: GBU (Global Business Unit), MDO (Market Development Operation), MSU (Millions of Statistical Units), NOS (Net Outside Sales), BO (Brand Operation), CMK (Consumer Marketing Knowledge). Every acronym has

a specific meaning which relates to the organisational reality of the company. The translation of single words is not enough to understand the meaning of the acronym. It is necessary to acknowledge the organisational practices of the corporation to interpret the meaning. Indeed, the Gillette people experienced a sort of cultural shock when participating in meetings with P&G people because of the inability to understand this large amount of acronyms. As a result of this communicative problem a book about acronyms has been elaborated as to help Gillette managers to understand the P&G corporate terminology.

To sum up, environmental pressures have been perceived by both managers of P&G and Gillette because of differences in corporate values (local tailoring vs. global business model) or because of different decision models (slow and participative vs. fast and top-down) and finally, differences in the oral and written communication (structured vs. informal style of communication). This illustration shows that there is the necessity to improve communicative capabilities of managers of both companies to generate integrative strategies to match two different corporate cultures. Indeed, different corporate values, decision making models as well as differences in oral and written communication are communicative contingencies that have to be seriously taken into consideration in mergers and acquisitions as to avoid perceptions of risks of organisational members.

Conclusive Notes

To conclude, there is no need to reduce contingencies in corporate communication or eliminate uncertainties in organisations because of their unpredictability. On the contrary, one can reduce the individual perceptions of risks by means of adaptations to new organisational patterns.

Corporate contingency in the merger P&G – Gillette occurs because of the gap between the forces aiming to maintain own corporate identity and the forces calling for adaptations. Following a meso-level of analysis one can argue that the integration of merging corporations took place through the reflexive capacity of managers to observe own perceptions and react to changing organisational settings. This is an example of interrelations between macro forces – environmental pressures, and micro forces – individual perceptions of risk. This case demonstrates that managers react to environmental pressures by adapting to new organisational patterns to build up consensus through communication. So far managers of

both corporations recognised the prioritisation to adjust own corporate culture in order to be integrated in the combined corporation. The new organisational culture is result of managerial negotiations aiming to find ways to change corporate values, decision making models as well as communication styles.

Indeed, organisational culture need not be strong or rigid. It should form a dynamic interchange between the stable core of corporate identity and the unstable search for variability (Modena 2009).

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