Tamara Journal for Critical Organization Inquiry
 Vol. 21, No. 1/2023, pp. 15–18, ISSN 1532-5555

Knowledge gap in management studies[1]

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A knowledge gap is subjectively experienced. The recurrent protagonist of Zbigniew Herbert's poetry, Mr. Cogito complains:

So many books dictionaries
bloated encyclopedias
but no one to give advice[3]

Many investors, economists and managers speak today in a similar spirit, addressing a large crowd of representatives of management studies. In the context of contemporary mainstream knowledge, we find no answers, not even to the following to even two questions taken at random from just one single issue of the *Financial Times* dating from the end of October this year:

- *Why is the symbol of German industrial power, the Volkswagen Group, forced to close three large factories in its native Germany in 2024 and lay off several thousand highly qualified employees, while offering the remaining employees a 10% pay cut?*
- *Why is the global cosmetics giant Estée Lauder recording an 8% drop in sales and a more than 20% drop in the company's stock market value?*

After all, these are huge companies, professionally managed by highly educated and lavishly compensated managers, who, until recently, held significant amounts of reserves of available cash. It has been known for many years that the key to success in the automotive industry would be to create a market-adapted, sustainable and flexible offer of electric and combustion-powered vehicles. In the beauty industry, the pandemic has changed the criteria of beauty and elegance, as well as distribution channels, but it was equally known that global players would have to adapt to these changes. So why have not managers made a few fairly obvious adaptive decisions over the last few years that would have allowed them to avoid these long-foreseen threats?

Both the history of business and its current body of knowledge, seem to be full of similar stories. Just think of Motorola's dramatic adventure with satellite telephony, the collapse of Bethlehem Steel Corporation, the bankruptcy of Kodak, or the fall of Pan American World Airways. Based on the generally accepted scientific body of knowledge in the field of management,

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1 *Based on lecture at the* Kraków University of Economics *on receiving an honorary doctorate, December 11, 2024*.

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3 Transl. Alissa Vales (2007), published by HarperCollins.

 DOI: 10.7206/tamara.1532-5555.16

we do not know why companies and other organizations make irrational decisions, and do not make rational ones and expose themselves to disasters. Back in the 1970s, Prof. Andrzej Zawiślak addressed this problem exactly in this way. He even proposed a typology of limitations to the rationality of decision-making (informational, competence and motivational). However, there has been no empirical verification of this theory.

To explain this paradox, we need to refer to the "original sin" of organization and management studies, committed during the formative yearsof its emergence as a modern discipline of science. It was assumed then that organizations are created to fulfil an external goal (or set of goals) as well as tasks, as defined by their founders and owners. The author of one of the popular American management textbooks (Richard M. Hodgets), put it quite brilliantly as: "getting things done through other people". The internal coherence of the organization and the process of managing it were to be subject to this principle. As Professor Jan Zieleniewski put it: "parts are to contribute to the success of the whole". As a student at Warsaw School of Economics, I took an exam in Organizational and Management Theory with the Professor, I dared to propose to draw attention to the fact that the opposite relationship may be equally relevant: "the whole contributing to the success of the parts". However, this opposite relationship is systematically omitted and silenced in the mainstream of organizational and management studies. Frank Abrams' article published in *Harvard Business Review* in 1951 held a clearly formulated thesis that the essence of an effective management philosophy is to maintain a balance between the equal interests of various groups interested in the functioning of the organization. However, it went uncited and relatively unnoticed. Science has consistently ignored the fact that people in organizations lead their own lives and pursue their personal goals, which are often in conflict with the "official" goals listed in pompous mission statements. And it is precisely these "private" goals that are implemented in practice by "organizational people": managers who have a tendency and ability to create informal coalitions inscribed in the cultural DNA of their social roles to secure their own interests. As the Nobel laureate Robert Aumann brilliantly put it: "Incentives explain all." In other words, organizations are stupid because people are smart, or at least clever.

At the turn of the 1950s and 1960s, the behavioural theory of the firm (James G. March & Herbert Simon) emerged at Carnegie Mellon University. This was the scientific community of one of my masters, the future Nobel Prize laureate Herbert Simon. It was an unprecedented attempt, until then unheard of in our discipline, to build a general theory of organization and management with all three of its immanent functions: identification, explanation, and prediction. This theory was based on the assumption of internal interest games, which lead, in the processes of negotiations and bargaining to coalitions making a final decision. And indeed, we know how things work with coalitions. Nothing can be assumed in advance, and everything has to be studied empirically. During my stay at Carnegie Mellon, I was convinced of this very way of practicing the studies of organization and management: constant confrontation of theory with current empiricism. And I remain faithful to this cognitive principle school.[4]

Unfortunately, this orientation towards theory generation in management science, which was promoted at Carnegie Mellon, lost in the end in popularity to the exclusively normative-illustrative philosophy based on case analysis and consulting practice promoted at Harvard. The behavioural theory of the firm has not been subject to mainstream empirical verification

[4] This is a piece of sound advice that I, together with the Editors of "Tamara" journal, would be happy to offer.

or grounded theories models of collective decision-making processes in organizations. The illusion still prevails in many contexts, that in organizations such as Volkswagen or Estée Lauder decisions are made by some kind of Rational Demiurge. This mythical character may sometimes make a mistake, but basically represents the requirements of "the success of the whole" in Zieleniewski's understanding. With such an assumption, we cannot learn the real causes of failures as Herbert Simon and James March would have it.

The concepts and models of organizational games were an attempt to explain actual decision--making processes in organizations. At the turn of the 1970s and 1980s, such theories emerged in Europe (e.g. Michel Crozier, Erhard Friedberg) and in the USA (e.g. Jeffrey Pffefer, Gerald Salancik). However, they were perceived by the mainstream rather as sociological works than management science and did not gain much popularity in broader circles. There was a clear lack of translation into managerial practice: procedures for identifying, describing and predicting the dynamics of the game in organizations. Our Polish model of organizational games (Andrzej Koźmiński & Andrzej Zawiślak) held a similar weakness: a detachment from management practice and so unknown ability to predict. There was a lack of recognition of the actual selection criteria used by players. A certain breakthrough took place with the distinction between productive and parasitic games. A little-known attempt at empirical verification of the game model, in the process of implementing innovations in the machine industry in Poland in the late 1970s turned out to be successful (eds. Andrzej Koźmiński & Krzysztof Obłój). At that time, however, it seemed that it had completely lost its relevance due to the simultaneous tremendous changes imposed by the systemic transformation. The irrationality of managerial decisions in the new conditions remained a mystery.

An attempt to break through this barrier of ignorance was Robert Kaplan and David Norton's Balanced Scorecard. The essence of this approach is the assumption that in order to survive and develop, an organization needs to balance its needs, intentions, and ambitions with the results achieved in various areas of production, sales, finances, etc. This method was and still is readily used by consultants at the stage of diagnosing company problems. The problem is that they use existing accounting, technical, and financial data, which is being routinely collected in the company. Therefore, the entire psychosocial sphere escapes attention: emotions, ambitions, feelings, norms and patterns of behaviour, and above all personal ambitions and interests.

When Krzysztof Obłój and I began working on the theory of organizational balance, we intended to address this gap. We distinguished four areas of balance: external and internal material-technical, and external and internal psycho-social. All that remains is to generate appropriate indicators for each of them, i.e. select a dozen or so relevant indexes. This would require connecting with finance and technology, as well as social psychology and empirical sociological research. Had this work been completed, we would now have had instruments that would allow us to explain and perhaps even predict organizational behaviour under relatively stable conditions.

Unfortunately, we missed the train of history and, what is more, this train has run over our work, which had been polished for years. The book presenting the initial outline of the theory of organizational equilibrium was published at the worst possible time and place: in Warsaw in the memorable and turbulent June 1989. There was a rising tide of transformation, radical uncertainty, change, carrying with them: successive financial crises, technological bubbles, pandemics, hybrid conflicts, full-scale regional wars and the prospect of global conflict. In such conditions, standardized, relatively stable systems of indicators and patterns borrowed

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from the exact sciences naturally fail. The knowledge gap makes itself felt again as uncertainty intensifies.

We understand the macroeconomic environment of organizations less and less. We do not know why business cycles flatten out despite powerful shocks? Why do the classic relationships between inflation and unemployment not work? How long and to what extent can deficit state spending, i.e. indebting the state, continue? How much and in what way will the role of the state in managing the economy, and even specific companies, increase? In all these areas and around the world, reality is evolving in directions that are almost exactly contrary to textbook economic knowledge embedded in the liberal-democratic trend. And yet this is exactly what is happening. Economists protest albeit anaemically, and reality runs its own scenario, which we simply do not know. The knowledge gap is growing, and this is painfully felt among experts. It has come to the point that the July-August 2024 issue of *Harvard Business Review* proposes replacing scientific models with a return to managerial intuition: "Models and forecasts can be seductive, but it's time for executives to reclaim their economic judgment" (Philip Carlsson-Szlezak & Paul Swartz). This looks almost like an act of capitulation of management science.

To reduce this new type of knowledge gap, characteristic of times of radical uncertainty, and happily avoid fortune tellers, one must refer to a systematic analysis of the dominant driver of human behaviour in organizations: emotions. This is embraced by outstanding contemporary economists (e.g. George Akerlof, Robert Shiller). This view is also confirmed by my own research on leadership, conducted for decades, or more precisely, its gradual disintegration towards limited and dispersed leadership. In conditions of radical uncertainty, monoliths fall apart and give way to networks in which difficult to predict behaviours and decisions "lined" with emotions are born as a result of games. It cannot be captured by the algorithms and rational models we once dreamed of. The idea of a constant confrontation between general theory and empiricism returns with renewed relevance. Only in this way can we fulfil the wish of Mr. Cogito, who

would like to rise
to the occasion

that is
look fate
straight in the eye[5]

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[5] Transl. Alissa Vales (2007), published by HarperCollins.