10.5465/AMBPP.2021.135

ACTIVE PERSISTENCE OF SHARED CHARACTERISTICS IN AN ORGANIZED MARKET

WENDY KILMINSTER
The Business School, City, University of London
Bunhill Row, London EC1Y 8TZ

ALESSANDRO GUIDICI
The Business School, City, University of London

PAULA JARZABKOWSKI
The Business School, City, University of London
Business School, The University of Queensland, Brisbane

INTRODUCTION

Organizational change and stability are core themes of management studies. While we know a lot about intentional and unintentional change in organizations, studies of stability focus predominately on unintentional stability. The literature typically frames stability negatively, as an outcome of failure to change; organizations must "*overcome organizational inertia*" (Gilbert, 2005) or they "*fail to adapt*" (Tripsas and Gavetti 2000). Such framings may hide the potential for intentional retention of organizational characteristics in the face of exogenous or endogenous pressures. Recently, process scholars have called for attention to organizational stability; "*we often forget the huge amount of work and activity that is required to stay in the same place*" (Gehman et al. 2018). In this study we explore the persistence of a longstanding characteristic shared by a group of interdependent organizations. We conceptualise this group of organizations, the Lloyd's of London insurance market, as an organized market. Lloyd's has seen significant change in some aspects of its structure and operations as it gained collective and corporate characteristics throughout its more than three-hundred-year history. However, other aspects of Lloyd's have changed little since the market's earliest days. We focus on one of these, the annual venture, to develop a richer and more nuanced understanding of the processes and meaning of persistence in settings characterised by partial organization and heterogenous interests.

THEORETICAL FRAMING

Path dependence, a prominent process explanation of the establishment, embedding and persistence of organizational characteristics (Schreyögg, Sydow, and Holtmann 2011) frames stability as an inability to change. Path persistence is driven by deterministic forces; the benefits of a nascent path trigger self-reinforcing mechanisms that eventually constrain an organization's ability to select alternatives and may result in the path becoming locked-in (Sydow, Schreyögg, and Koch 2009). In interorganizational contexts, the ongoing stability of shared characteristics is complicated by the need for such characteristics to meet the requirements of individual organizations and of the interorganizational collective. Persistence in such settings also arises through self-reinforcing mechanisms, such as positive feedback in the form of lower transaction costs resulting from coordinated routines or governance (Dyer and Singh 1998; Provan, Fish, and

10.5465/AMBPP.2021.135

Sydow 2007). Yet such mechanisms alone are insufficient to explain why a characteristic persists despite salient inefficiencies and if persistence may arise intentionally.

Studies have shown mindful continuation and defence of technology paths (e.g. Meyer and Schubert, 2007) and we know enduring practices require ongoing repair and reconstruction (Langley et al. 2013), but we know little about the persistence of interorganizational paths in the face of an opportunity for change. We can anticipate tensions in such situations; while more opportunities for path breaking may be expected in an organized market than in a single organization (cf: exploratory learning (March 1991)), we also know that interorganizational contexts can have inertial tendencies as change is difficult in settings with diffuse power and diverse objectives (Denis, Lamothe, and Langley 2001). The potential for conflicting interests is inherent in interorganizational contexts, making agreement of collective action difficult.

Path dependence theory would suggest that once an interorganizational path is embedded, stability is the result of failure to path-break (e.g Koch, 2011). However, we also know that persistence and change may be outcomes of the same process (Farjoun, 2010). We focus on the potential for the intentional outcome of the process of reviewing a longstanding shared characteristic to be change *or* stability. We seek to deepen understanding of intentional stability through the lens of path dependence by looking for processes and patterns of dynamic intentional action. Path continuation may be an intentional choice, selected to maintain market-level benefits created by current practices and to stabilise the collective. The presence of multiple self-reinforcing mechanisms introduces the possibility of feedback of different valences at the local and collective levels. The presence of heterogenous interests introduces the possibility of feedback of difference valences for different market participants. We ask how is an interorganizational path maintained when an organized market is faced with a salient inefficiency and how does the presence of different interest groups influence such persistence?

METHODS & RESEARCH SETTING

Our longitudinal case study considers the persistence of a longstanding characteristic of Lloyd’s of London, an international insurance market based in the City of London. Originating in the seventeenth century, Lloyd’s was an informal collection of individuals who met in a coffee house to trade marine insurance. Today’s market participants are international insurance companies trading all kinds of insurance risk, collectively writing over £35bn of insurance premium. We conceptualise Lloyd’s as an organized market; independent participants are partially organized within a formal organization (Ahrne & Brunsson 2011). Lloyd's organizing actor (Ahrne, Aspers, and Brunsson 2015), was initially an informal committee responsible for the provision of premises. Today's organizing actor has responsibilities prescribed by legislation, which include governance and the provision of shared infrastructure. The case was theoretically selected to examine the persistence of a characteristic shared by market participants in the face of collective reflexivity. We zoom in on the late twentieth century, when the focal characteristic was subject to repeated questioning and review. A series of internal and external challenges in the 1970-90s led to changes in market participation and the previously homogenous interests of participants diverged with differentiation between the roles of ‘investor’ and ‘business manager’. The characteristic – the annual venture – is a set of practices which structure participation at Lloyd’s, from investment and business management perspectives, as a series of discrete ventures. The annual venture emerged early in Lloyd’s development and still exists today.

10.5465/AMBPP.2021.135

Over 8000 pages of historic (archival and secondary) and 500 pages of contemporary materials were collected on-site between September 2019 and March 2020. We produced a synthetic chronological narrative (Langley 1999) drawing on the raw data and incorporating themes and theoretical elements developed through inductive data exploration. We reviewed the narrative using a temporal bracketing approach. We identified three phases of reviews and sought evidence of the actions and decision-making common to each phase. Our analysis finds three patterns of actions and motivations of actors, each resulting in the outcome of persistence.

FINDINGS

The annual venture as an interorganizational path

The underlying principle of the annual venture is that participation at Lloyd's is discontinuous, not continuous. Five interdependent aspects of the annual venture integrate the participation of Lloyd's businesses and their capital providers: (i) venture accounting - the practice of accounting by venture, not calendar year; (ii) the 'year of account' (YoA) - the venture; (iii) three year account duration – leaving each YoA open for three years before closure; (iv) YoA allocation – the feature of the insured risk which determines the YoA to which the insurance contract is allocated; (v) individual venture participation – individual capital providers invest in individual YoA of a Lloyd's business. All five aspects arose early in Lloyd's development and exist in some form today. We identified the presence of formative event(s) and the self-replicating mechanisms that led to each aspect becoming embedded, allowing us to characterise the annual venture as an interorganizational path.

Presence of different types of persistence

For over two hundred years, the underlying principle and component aspects of the annual venture went unchanged and unquestioned. Starting from the first market-level loss in 1965, Lloyd's entered a three-decade period of turbulence during which some participants questioned certain problematic consequences of the annual venture. In response, the organizing actor commissioned reviews to consider the issues raised and proposals for change. However, all resulted in the retention of the status quo. The reviews fall into three phases which differ with respect to contextual influences, how the process underpinning persistence unfolds, and the nature of the persistence itself. In each phase, the presence of different actors with different interests influenced the dynamics of the review process, in turn influencing the outcome.

Phase One: passive persistence; annual venture is unquestioned and further embedded. In the first phase, the outcome of the reviews was 'no change' because the annual venture continued to be taken-for-granted. These reviews were commissioned to address immediate problems arising from regulatory shortcomings. None of the five aspects of the annual venture, nor the principle of discontinuous participation were problematized directly by market participants. The review problems questioned the annual venture in only limited and indirect ways. Indirect questioning came through some participants' problematization of Lloyd's practice of unlimited liability investment. While unlimited liability is not part of the annual venture, introducing limited liability by allowing incorporated participation challenged the 'individual venture participation' aspect of the annual venture. However, the change had little support from

10.5465/AMBPP.2021.135

existing participants and was rejected by the organizing actor; "*the working party considered various proposals that Members should adopt [*incorporated*] participation…but…found… practical or tax objections to all.*"[1]. Criticism more directly related to the annual venture did not problematise the practices themselves but the lack of accuracy in financial reporting. There was little contestation of this view. Changes introduced by the organizing actor to address such concerns treated the annual venture practices as taken-for-granted features around which solutions must be designed; as seen in the recommendation to formalize accounting and reporting rules in a new byelaw: "*Recommendation 23.22 These* [accounting rules] *need to be specifically designed to meet the circumstances of Lloyd's and…recognise the special features of Lloyd's system – the three year account period, the lapse of time between accepting a risk and processing a the policy and premium* [YoA allocation]…*the central importance of the Reinsurance to Close* [closure of the YoA, Venture Accounting]. *"*[2] Through the byelaw, these 'special features' became formal requirements, further embedding the annual venture.

Phase Two: active persistence; annual venture 're-affirmed' to stabilise the market. During the 1980s and 90s, Lloyd's came close to failure, incurring severe losses and wracked by scandals. By the 1980s the different interests of larger Lloyd's businesses and traditional private investors were salient. The annual venture was questioned in whole and in part, but the outcome of each review was its intentional continuation in order to secure market stability.

Business managers problematized the tension between "*the one-year syndicate and the need to reserve, plan and invest for the future of an ongoing business*"[3]. Participants defending the status quo wanted to maintain the principle of discontinuous participation because of associated capital efficiency and tax benefits. The duration of account aspect was repeatedly problematized by investors, arguing that the delay in reporting results disguised emerging performance issues. Others countered it was inherently linked to the principle of discontinuous participation as a three-year period was necessary to close each individual YoA accurately. As a result of the evident contestation, the review problem was framed as the determination of the most appropriate way of operating. Consequently, review groups considered a range of options, including the status quo. Those defending the status quo drew attention not only to the benefits of the practices for individual participants, but also to their collective-level benefits. The review group placed importance on complementarities between practices and on the need to maintain market-level cohesion; "*because Lloyd's is such an extraordinarily complex market with major advantages derived from its history, great care is needed to ensure that the pressure for necessary change is not allowed to damage the very fabric it is seeking to preserve."*[4] While the review group acknowledged the problems experienced by larger businesses, its recommendations prioritized the need to retain the support of private investors to stabilise the market. In respect of the three-year account duration, the decision was to retain the status quo and mitigate the problems raised via additional reporting requirements. The decision to retain discontinuous participation privileged private investors and avoided disruption to interdependent practices.

In synthesizing the conflicting interests of participants, the review group was mindful of the temporal orientation of each argument. Business managers sought to achieve their future goals through operating on a continuous basis. Private investors sought to address present problems by improving clarity and accuracy in performance reporting. The present-orientation of the review problems - survival – made the interests of those arguing for the status quo the closer alignment; "*the keynote of the report is the primacy of [*private investors*] interests, and that what best serves the interests of the membership in the end is a healthy and prosperous society*."[5] One

10.5465/AMBPP.2021.135

of the most radical changes of this period was the admission of corporate capital. Additional capital was necessary for the survival of the market. Existing participants agreed to a new type of participant, providing the structures of participation were unchanged: "*we have structured the basis of participation for incorporated [*investment participants*] to ensure that the interests of the current membership are enhanced…incorporated [*investment participants*] will participate in the annual venture of each syndicate on the normal basis*."[6] Retaining current structures provided stability while permitting a new type of participant.

Phase Three: active persistence; annual venture is tolerated for pragmatic reasons. Following the turmoil of the 1990s, Lloyd's entered a period of relative stability. This phase of reviews considered longer term strategic issues arising from the changing nature of market participants. Corporate capital had rapidly become dominant in quantum of market capital provision and the number of businesses owned by their capital provider. Corporate capital participants saw the principle and practices of the annual venture as constraints on achieving their business goals. Private capital participants were vocal in defence of the status quo. To avoid the disruption of conflict and disputes around the legitimacy of the organizing actor's role in shaping Lloyd's future development, the review groups made pragmatic decisions to retain the annual venture, while signalling that change via individual actions would be supported. Corporate capital providers accepted this outcome as modifications to other practices mitigated some of the inefficiencies they experienced with the annual venture.

Contestation influenced the framing of the review problems. Corporate capital participants problematized the annual venture as a whole, arguing it constrained their ability to operate as ongoing businesses (e.g.: the administrative costs of annual re-capitalisation, restrictions on longer term business development investments)[7]. Private capital participants defended the annual venture by foregrounding its market-level benefits. Many private investors felt the pressure from corporate capital to remove the annual venture had the underlying aim of removing private capital participation. Public exchanges at this time, in person and in print, were sometimes heated and ill tempered[8]. Given the organizing actor's responsibility to consider the interests of all participant groups, the concerns of private capital had to be acknowledged. The review problem could not be framed as 'deciding whether to scrap the annual venture' as this would be seen as 'deciding whether to remove the current form of private capital participation' by proxy. Consequently, reviews took a narrower focus, seeking to improve, rather than replace the existing framework. Private capital participants accepted that some form of reform was necessary and corporate capital participants settled for incremental improvements within the current framework (e.g. annual accounting for external reporting; earlier profit release for businesses with a single corporate capital provider) as they hoped for more radical change in the medium term. Such modifications appears to have addressed the concerns of corporate capital providers. While the principle of discontinuous participation and the associated practices and structures of the annual venture remain, their questioning has abated: "*the annual venture didn't really get raised during market consultation on [capital provision] last year*."[9]

DISCUSSION & CONTRIBUTIONS

The everyday persistence of the annual venture for over two hundred years occurred through repeated unquestioned performance. Such stability can be explained as a mindless continuance, the practice was taken-for-granted while it remained efficient and aligned with the

10.5465/AMBPP.2021.135

needs of participants. We focus on explaining persistence during a three-decade period of intentional reflexivity when multiple reviews were commissioned by the organizing actor to address problems facing the market. These reviews fall into three phases. The outcome of each phase was the continuation of the annual venture however, the process of persistence unfolded differently and for different reasons in each phase. In the first phase of reviews, the absence of problematization led to the practices remaining taken-for-granted. Solutions to the problems facing the review group were designed around the practice and so it became further embedded. The process and outcome of the first phase are aligned with the expectations of organisational path dependence. In the second and third phases of reviews, the annual venture was directly questioned in some way. In these phases, intentional actions of local level actors and the organizing actor influenced the framing of the review problem and the synthesis of interests made by the organizing actor in determining its recommendations. Problematization and defence actions foreground particular aspects of a characteristic, shaping the question asked by the review. Active defence of the status quo results in the option to ‘not change’ being included in the choice set evaluated by the review. The review process draws attention to tensions between different interest groups, forcing the organizing actor to synthesise competing interests. In determining this synthesis, the interests of the collective entity are privileged due to the organizing actor’s goal of market stability. In the second phase of reviews, the present orientation of the review problem frames stability as survival and (re)selection of the status quo ensures market cohesion. In the third phase of reviews, the future orientation of the review problem frames stability as avoiding disruption and the pragmatic retention of the status quo allows for later incremental change through mutual adjustment.

We contribute by extending our understanding of intentional stability, and of interorganizational path dependence theory specifically, to include intentional active persistence. We show that persistence arises not only through the deterministic influences of path dependence (Sydow, Schreyögg, and Koch 2009), but also from active work which results in a decision to retain a practice. Problematization, defence and evaluation of a practice informs the synthesis of interests made by an organizing actor in selecting its response to a decision problem. In inter-organizational settings the intentional selection of the option to not change arises because the organizing actor is orientated towards solving the problem of ensuring ongoing market stability.

ENDNOTES

1. Lloyd’s Office Gazette, May 1970
2. Report of the Fisher Working Party, December 1969, p.7
3. Lloyd’s Newsletter, February 1991
4. Letter from Task Force Chairman to Lloyd’s Chairman, Task Force report preface, 1991, p.1
5. Lloyd’s Office Gazette, February 1992
6. Planning for Profit: a business plan for Lloyd’s of London, April 1993, p.56
7. Director General of Lloyd’s Corporate Capital Association, One Lime Street, May 1998
8. e.g. Association of Names Conference, reported One Lime Street, April 1998
9. Personal email correspondence with Corporation of Lloyd’s Strategy Manager, 03/03/2020

REFERENCES AVAILABLE FROM THE AUTHORS