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#### Abstract

This article examines what happened in local government organizations when they faced the financial crisis of 2008/2009, exploring actors' perceptions of how the crisis affected local governments. It contributes to research into actions taken when organizations face financial crises, using a sensemaking approach, in accordance with the ideas of Karl Weick, as both a methodological tool and theoretical point of departure. The article concludes that, while the actors hesitated to call the 2008 financial situation a crisis, the situation did prompt organizational change. The crisis was described as an opportunity to be innovative and creative, but the described changes made tended to address old problems in old ways. The actors also pointed out that the crisis could still prompt change in local government organizations in the future.

#### Kommunala aktörers förståelse av finansskrisen

I denna artikel presenteras en studie av vad som skedde i svenska kommuner i samband med finansskrisen 2008/2009. Fokus är hur aktörerna på lokal nivå uppfattade krisen och hur de agerade. Artikeln bidrar till forskning om agerande i samband med finansiella kriser och gör detta genom att använda Karl Weicks teorier om meningsskapande. I artikeln fastslås att även om aktörerna inte ville kalla händelserna under 2008/2009 en kris har situationen inneburit förändringar. Situationen beskrevs som en möjlighet att vara innovation och kreativ men de beskrivna förändringarna är i mångt och mycket förändringar som syftar till att lösa gamla problem på gamla sätt. Aktörerna påpekade dock att situationen fortfarande kan komma att innebära förändringar i kommunerna i framtiden.

## Introduction

The 2008/2009 financial crisis is commonly regarded as unexpected; for example, the Governor of the Reserve Bank of Australia said on 9 December 2008: “I do not know anyone who predicted this course of events” (Bezemer, 2010:676). Whether or not this was really the case has been widely discussed in hindsight. The famous American economist Wynne Godley argued, starting in year 2000, that an unavoidable slowdown in the US housing market would usher in recession (Bezemer, 2010). Nevertheless, the crisis is often described as unexpected, although it could be more accurately said that those who did warn of it were simply not heeded. Much has been written since the crisis about possible explanations of it (Moh et al., 2012), its connection with accounting research and models (Arnold, 2009; Bezemer, 2010), the challenges it poses to auditors (Sikka, 2009), and how the media used rhetoric to describe it (Riaz et al., 2011). Mainstream economists and their simplified models have also been criticized for their inability to predict what happened (Agarwal et al., 2009; Bezemer, 2011). However, little research has addressed how the financial crisis affected organizations and their actors at a local level. This is surprising since, as Agarwal et al. (2009:470) state, “economies do not make decisions, and neither do firms – people make decisions” (see also Felin and Foss, 2009). The role of actors in creating or exacerbating the crisis is also emphasized by Thiétart and Forgues (1997:120), who define a crisis as:

... a non-desirable situation which might in fact be created and perpetuated by the same organizational actors who try to solve it. In that sense, actors have contributed to enacting a context that they cannot fully control and have little say in the way events unfold.

The above definition highlights the role of actors and their willingness to act in the event of crisis, even though it might be difficult to change ongoing developments. Nevertheless, in hindsight, actors will have explanations and opinions regarding what occur in their contexts; what actions that were needed and what effects the situation implied.

Although there were warnings about the financial crisis in 2008/2009 it is often regarded as unexpected (Bezemer, 2010). In these situations, when unexpected events occur, Deroy and Clegg (2011) argue that plans and routines are lacking. Moreover do they point out that events in general attract insufficient attention in organizational research, in which institutions – such as habits, routines, and historical events – are usually cited to explain actions. However, events sometimes occur that alter an organization’s context such that there is no institutionalized behaviour on which to fall back. At the same time are unexpected events argued to create opportunities to change our understanding of a structure or of the meaning of an action, in what is known as *sensemaking* (Weick, 1995, 2001, 2009). Sensemaking, here used as a methodological approach to analysing the involved actors’ views of the financial crisis, will be described below. The empirical data are based on case studies of three local

governments in Sweden. I argue that a crisis does not, as is often believed, necessarily foster creativity and innovation, but instead presents an opportunity to solve old problems in old ways. The article demonstrates that, although few interviewed actors wanted to call what happened a crisis, they took the opportunity to initiate change. The respondents also argue that the crisis is yet to come, as a means to foster a particular understanding of organizational change.

## **Purpose**

This article contributes to research into financial crises and their effects on public-sector organizations. The article sets out to explore what happened in local government organizations at the time of the 2008/2009 financial crisis. It contributes to research into actions taken when organizations face financial crises, using a sensemaking approach, in accordance with the ideas of Karl Weick. There is a general assumption that crises lead to creativity and innovation (e.g. Bolton 1993 for an overview). However, little empirical research examines whether and how this actually happens in practice, i.e. what organizations and individuals actually *do* when facing a crisis, and it is to this area that the article contributes by citing empirical examples.

## **Methodological approach**

The methodological approach is inspired by Karl Weick's (1995, 2001, 2009) notion of sensemaking, implying that sensemaking can be used as a means to understand how the financial crisis affected local governments and how the involved actors understood the events retrospectively. The approach is thus both a methodological and a theoretical point of departure, regularly used in the context of organizational crisis (e.g. Maitlis, 2005), and is inspired by Berger and Luckmann's (1967) ideas of social construction.

The empirical data consist of interviews with actors in three Swedish local governments chosen for their differences, though they were all affected by the same event – the 2008/2009 financial crisis. The chosen municipalities are widely spatially distributed in Sweden and have certain features that distinguish them from each other. In each of these three local governments, interviews were conducted with two leading civil servants, generally the municipal manager and finance department head, and two leading politicians, i.e. the mayor and the leading opposition politician, for a total of 12 interviews. The case studies are part of a wider research project, including 47 local governments and 200 conducted interviews, within the Swedish Local Government Research Programme (Nationella Kommunforskningsprogrammet). The results presented here could be obtained from studying other local governments as well, but in the interest of analytical depth, only three local governments were chosen for examination.

The article takes a managerial perspective; whether other respondents, occupying other positions, would give the same responses is a matter for further research. The local governments studied are those of Sotenäs municipality in Bo-

huslän, the city of Alingsås in Västergötland, and the city of Luleå in Norrland. The interviews were semi-structured, lasted 30–90 minutes, and were carried out in autumn 2010. The interviews were recorded, transcribed, and then analysed. The period when the interviews were conducted implies that the respondents had already had time to think about how their local governments had been affected; this enabled them to make sense of the event and to consider what was done and could have been done differently.

### Understanding unexpected events: a sensemaking approach

Weick's notion of sensemaking has influenced several modern researchers (e.g. Gioia and Chittipeddi, 1991; Gioia and Thomas, 1996; Pratt, 2000; Corvellec and Risberg, 2007). Maitlis (2005) emphasizes two approaches to applying sensemaking in research: one seeks to understand how certain groups influence others, while the other focuses on the social process occurring more holistically within organizations, often in connection with crises. Weick's (1993) well-known study of the Mann Gulch fire disaster is one example.

The sensemaking process consists of three parts – order, interruption, and recovery – and is characterized by seven properties: it is grounded in identity construction; it is social, ongoing, and enactive of sensible environments; and it is retrospective, focusing on extracted cues and driven by plausibility rather than accuracy (Weick, 1995, 2001, 2009). These properties are described below.

#### The seven properties of sensemaking

The first property of sensemaking, that of being grounded in identity construction, implies that sense is created based on how individuals perceive themselves and others. Sensemaking is rooted in individual identity, and the realization that, to understand actions taken, individuals must first understand themselves (Hellgren and Löwstedt, 1997). Different individuals make sense of things differently, always inescapably influenced by others and their contexts. This is also what happened in the local governments studied here: individuals in the organizations influenced each other internally, but were also dependent on the reactions of actors in other local governments. Although a decision or perception may seem individual, Weick (1995) argues that it is always affected by the sense that someone later will interpret it, meaning that the decision is affected by others even though they are not immediately present. This implies that sense is created socially, hence the second property. The third property implies that sensemaking is an ongoing process that never starts or ends: individuals are always in the midst of projects and see the world through the lens of the project. This property is inspired by Schutz's (1967/1972) notion of "pure duration", i.e. that everything is subject to constant change. In connection with the financial crisis, the event is judged based on current knowledge of how it was resolved and of current conditions – which must be borne in mind when analysing respondent answers.

Weick developed the idea of the fourth property, enactive of sensible environments, as early as 1969, and it is the most-discussed property of sensemaking.<sup>1</sup> Enactment means that individuals, as well as organizations, do not react to fixed environments but actively create them: "the human actor does not react to an environment, he enacts it" (Weick, 1969:64). This implies that actions change the existing conditions: "We do something and the situation is forever changed, and those changes affect us" (Weick, 2009:190). This view has been criticized as implying a "chicken and egg debate" (Taylor and Van Every, 2000). That individuals jointly create their environment means that they draw lines, create categories, and make labels to which they will later have to respond. The notion of enactment clearly emphasizes the individual's importance in sensemaking (Hernes, 2008), justifying our present focus on actors.

The fifth property, retrospection, simply indicates that sensemaking is done in hindsight. Weick (1979:207, 1995:61) summarizes this by asking "How can I know what I think until I see what I say?" The question emphasizes that it is impossible to fully understand an action before it is spoken of (Griffin, 2000). In the present context, this implies that the financial crisis is being understood in hindsight, with the facts already on the table, which must be taken into consideration when analysing the event from the vantage point of the present.

The sixth property, focus on extracted cues, implies that individuals are looking for clues that can be positioned within existing frames of reference to confirm expected outcomes and make new sense. This is inspired by Goffman's (1974/1986) concept of "framing". Von Platen (2006) has demonstrated that the more uncertain the information is, the more intense the search for meaning and clues. In addition, Hellgren and Löwstedt (1997) note that people try to find the "red thread", even though there may not always be one. Actions taken, or not taken, when the financial crisis hit the organizations are given an explanation after the fact, even though they might not be related to the crisis as such.

The seventh property, of being driven by plausibility rather than accuracy, implies that it is not important that an explanation or interpretation be exactly right; it is more important that it should point in a certain direction. This is close to Simon's (1947) notion of "satisficing" behaviour, which means that one does not keep looking for a solution after finding one that is satisfactory. Weick (1995) tells a story exemplifying this: A group of soldiers got lost in the cold and snowy Alps. After some days of searching for the right path, and worrying that they would not find their way home, one of them finds a map. After a tedious walk they find the camp and, while there, are asked how they were able to find their way home despite the rough climate and terrain. When they showed the map they had found, it turned out not to be a map of the Alps but of the Pyrenees. This story shows that plausibility and clues can be enough to create action. When the soldiers started to walk back, they found paths that confirmed their expectations and then kept going. The map is considered a symbol that catalyses action; as Weick (1995:54) stresses, "when you are lost, any old map will do".

## The meaning of sensemaking

Hernes (2008) stresses that events are what starts the sensemaking process: “events are not events unless we make sense of them” (Hernes, 2008:49). That is, even a preliminary definition of an event is formulated in retrospect. An unexpected event can change the organization: it is a “window of opportunity”. Change is a complex notion, however, and Tsoukas and Chia (2002) argue that change is difficult to find, since doing so entails being there and seeing it for yourself. Most researchers describe a change from A to B, but where both A and B are likely fixed conditions, the real change takes place *between* A and B. In addition, Clegg et al. (2005:158) argue that organizations should not be considered “as fixed entities but rather as being in a constant state of becoming”. According to Weick (1995:43), sensemaking “never starts. The reason it never starts is that pure duration never stops. People are always in the middle of things”. Since Weick’s idea is that sensemaking is ongoing and unending, it is linked to a process perspective on organizations in which processes, actions, and organizing are of interest (Bakken and Hernes, 2006; Hernes, 2008). As Taylor and Van Every (2000:46) put it, change is not the exception but the rule, and structure is a “frozen moment”. The connection between the sensemaking perspective and pragmatism is obvious, and Dewey (1922/2002) would argue that there is no reason to search for where change start or stops – it is both impossible and uninteresting. The only thing we can claim is to know what the current situation is like (e.g. Webb, 2007). Weick (2001) argues, however, that sometimes events occur that are deviant, interruptive, or disruptive. The financial crisis can be regarded as one such event. That sensemaking is retrospective indicates the importance of studying events after they have happened, when their meaning has already been created (Weick, 1995).

Some criticisms of Weick’s sensemaking approach merit attention, for example, those concerning the notion of enactment. Taylor and Van Every (2000) ask whether, if the organization creates its surroundings, do the surroundings then constitute part of the organization? When studying local governments, this point is important, as one must know where the organization begins and ends, what is within the local government and what is outside it. However, determining boundaries in this way might not be of any help, since the more we decide beforehand the less we can then say (Van Maanen, 1995). From a process perspective, it is more productive to talk about organizing than an organization, since an organization consists of actions. Weick (1979) argues that researchers should be interested in verbs instead of nouns. Focusing on nouns leads to confusion, since it entails the perception that when something is named as constituting an entity, it remains the same and unchangeable. Hernes (2008:29) describes this eloquently: “Yes, the world is fluid, but it is populated by humans whose sensemaking apparatus pretends that it is not fluid”. Emphasizing verbs entails an awareness that things change and shift (Bakken and Hernes, 2006; Hernes, 2008).

Weick (1979) argues that organizations tend to keep old habits too long:

Has any organization ever failed to survive because it forgot something important? More likely is the possibility that organizations fail because they remember too much too long and persist too often doing too many things the way they've always done them. (Herrman, 1964, cited in Weick, 1979:224)

In addition, Martin De Holan and Phillips (2004:423) argue that forgetting is beneficial for an organization's competitiveness: "We are convinced that competitiveness is not just about learning; it is also about forgetting the right things at the right times".

The sensemaking approach and process perspective obviously both suggest that it is difficult to discuss *effects* the way we normally use the word, and since perception is context significant, it is not always accurate. However, what constitutes an effect if not what the involved actors consider constitutes an effect?

## Unexpected events and crises

Sometimes unexpected events occur, events for which institutionalized behaviour provides no guidance and for which plans and routines are lacking (Deroy and Clegg, 2011). That the financial crisis should be regarded as an unexpected event has been stated before (e.g. Bezemer, 2010); accordingly, that there was a lack of relevant institutionalized behaviour on which to rely is not a farfetched assumption. Weick's research into crises has found that when crisis is occurring, work is interrupted and cognitive distortions create stress that can produce errors and reduce the ability to detect errors (Gephart et al., 2009). Weick and Sutcliffe (2007:8) therefore argue that "managing the unexpected often means that people have to make strong responses to weak signals". This stands in contrast to the usual tendency to react weakly to weak signals and strongly to strong signals. To understand that the world is unstable, changeable, and unpredictable is a strategy for avoiding oversimplifying, in order to handle uncertainty better, according to Weick and Sutcliffe (2007). When it comes to crises, one problem is that circumstances are interpreted in simplistic terms and not taken seriously enough. Such oversimplification may occur because actors act based largely on experience. Wittgenstein (1969/1972) describes this as the assumption that what has happened before will happen again, which gives rise to self-fulfilling prophecies; in other words, "people create and find what they expect to find" (Weick, 1995:35). To handle uncertainty and manage organizations in critical situations, it is important to have resilience (Weick and Sutcliffe, 2007), implying "business as usual". In these situations, it is important not to let mistakes and problems attract too much attention. Weick and Sutcliffe (2007:14) argue that "resilience is a combination of keeping errors small and improvising workarounds that allow the system to keep functioning". Doing so requires understanding the complexity that surrounds organizations. Tsoukas and Shepherd (2004) stress that the best organizations have "foresight". To find out the extent to which an organization has foresight, Tsoukas and Shepherd (2004) advocate asking two questions:

To what extent is there knowledge of important events? And to what extent is there knowledge of how to act in these situations? Seidl (2004) argues that the ability to foresee future events is becoming more important in our contemporary, fast-moving society, and that the classic answer to how this can be done is through reacting to weak signals. However, he also argues that by the time a threat or an opportunity has arisen, it is often too late to act.

Crises and other unexpected events should not always be regarded as negative for an organization; they have also been defined as “potential space for action”, implying room for structural change (Linstead and Thanem, 2007) that might lead to innovation (Deroy and Clegg, 2011). Akrich et al. (2002:189) stress that “innovation looks nothing like a linear process”, and Styhre (2003) argues that unexpected events cannot be explained by simply invoking institutions, and that it is through managing unexpected events that organizational learning occurs. In addition, Martin De Holan and Phillips (2004) stress that learning organizations can better handle threats and problems, and better adapt to contextual changes. Events can occur both within the organization and externally, in the organization’s context. Tsoukas and Chia (2002) claim that events theoretically link internal and external conditions. How these processes were experienced in the studied local government organizations is discussed below.

### Three local governments: one crisis

Various commentators consider the global financial crisis the worst economic disaster since the stock market crash that launched the Great Depression in 1929 (Riaz et al., 2011). Several causes for the financial crisis have been suggested, which started in the US real estate market (Bezemer, 2010) and involved loose bank lending, an absence of regulatory oversight, and the failure of ratings agencies (Crotty, 2009). Others have examined the issue more deeply, suggesting that the whole financial system has systemically failed (Riaz et al., 2011). Puxty (1997:718) defines a crisis as “a state reached by a system such that to continue its operation in the same way beyond that point becomes infeasible: structural changes must be made”. This could be argued to have been the case in 2008 and 2009. In autumn 2008, reports reached Swedish local governments that things were not right with the world economy. The Swedish media described how the financial crisis would affect the country, and claimed that local governments would face decreased tax receipts. Several local governments were expected to report deficits in 2009 and 2010, as earlier advantageous circumstances rapidly changed to crisis. However, this proved not to be the case. The Swedish state government decided upon temporary economic support and increased government grants (Prop. 2009/10:1; Prop. 2009/10:2), while tax receipts were not as weak as expected. Local governments also received unexpected income due to returns of membership fees from the Swedish Association of Local Authorities and Regions (SALAR) and returns of employment insurance premiums (Skr. 2009/10:102). Altogether, this materially altered the situation facing local gov-



ernments, which is why several of them, instead of financial problems, reported significant surpluses in 2009 and 2010. Then the crisis ended. At the beginning of this period, however, Swedish local governments initially faced a crisis, which could be considered an unexpected event. The three studied local governments are first briefly described below; then the empirical section is divided into themes to highlight the processes occurring in the three organizations.

#### **Alingsås: “the city of light and potatoes”**

Alingsås is located about 50 km east of Sweden’s second-largest city, Gothenburg, and has about 37,500 residents. A conservative majority governs Alingsås, and this has been the case since 2002. Alingsås is known as the city where Jonas Alströmer lived, the man who brought the potato to Sweden, who is represented by a statue in the city square. The city is also known as one of the most café-dense cities in Sweden per capita and for “Lights in Alingsås”, an urban light design event that takes place every October.

#### **Luleå: “the city by the water”**

Luleå, located in Norrbotten in northern Sweden, has about 74,000 inhabitants. The city is home to Luleå university of technology, which has been crucial to the city’s development. Luleå is governed by the Social Democrats and has been for a long time, a fact said to give rise to organizational stability. Luleå is also described as having experienced increased competition due to globalisation and general trends.

#### **Sotenäs municipality: “the Florida of Bohuslän”**

The municipality of Sotenäs is located by the sea in the north of Bohuslän in western Sweden. The municipality has a population of about 9200 and Kungshamn is its central village, where most public services are located. The municipality is small in area, but with extensive seacoast. The local government is governed by a conservative majority, which has gained influence in recent years, attributable to the many affluent retirees who have moved to the Sotenäs, hence its nickname, used by the respondents; “the Florida of Bohuslän”.

#### **“What crisis?”**

No respondent from any of the three local governments remembered the crisis as posing any particular difficulty. In fact, most respondents did not want to call it a crisis at all, at least not as it affected their organizations. The attitude was that the notion of crisis was something that the media used to sell their products, and that it was primarily in the media that the crisis was evident. Whatever the event was called, it still affected the local government organizations in various ways. In Alingsås, the respondents described how the city council decided on budget

cutbacks, which the opposition leader in hindsight believed was too drastic a response. He retrospectively described the cutbacks as unneeded, citing the surplus that the local government later accrued as evidence of this. The head of finance in Alingsås argued, on the other hand, that the administration had acted quickly and appropriately, selling its shares in Kaupthing Bank as soon as it realized that something was amiss; therefore, it did not lose any money on that investment. He instead regards the surplus as evidence of fast thinking and decisive action. The head of finance described the event as follows:

I felt that something was not right and transferred the money that we had in Kaupthing Bank. For that reason, there was no opportunity for financial damage. After that, the tax revenues were shrinking and we made cutbacks in the budget. Early on, the politicians stated clearly that the financial situation was important.

In Sotenäs, all the respondents said that the local government was relatively unaffected by the crisis – as usual, they had “gone with the flow”. However, they now claim to be more careful than before, although they say that they were always careful:

This local government is safe and secure, even without any major changes – which might be the biggest problem here.

The above was expressed by the opposition politician in Sotenäs, who meant that there is a sense of security that can lead to aversion to change, since the general sentiment is that things will be all right in the end if nothing is done. When the financial crisis struck, cutbacks were made by not adjusting the budget to inflation and restraint was exercised when it came to internal conferences, but one respondent explained that these measures were only implemented after the administration observed how other local governments had reacted. The mayor of Sotenäs said that this indicates that the Sotenäs administrators “have cool heads and do not act rashly”. This reaction could be seen as both good and bad, depending on the respondent’s perspective. The head of the financial department drew a comparison with the Swedish banking crisis of the 1990s, which he found much more troublesome for the local government. The financial conditions now were said to be good, but only because Sotenäs could live off its valuable land holdings. There is a belief that when money is needed, the government can simply sell some land, which is said to create an attitude of “going with the flow”, that there is really no need to do much in Sotenäs. The leading opposition politician said that this breeds laziness and a belief that it is unimportant to adhere to the budget, since the local government can raise money if needed. This respondent believed that this would constitute a problem in the long run, which is why he said that clearer management and better-adapted management models were needed. He described the real problem as follows:

We have not had that many crises here, but the problem is that we are having difficulties attracting the personnel we want, and people are moving away from here and we do not know how to change that.

The mayor of Sotenäs claimed that the local government was too small to make tough decisions, since matters always became personal. The example he cited had to do with closing schools:

It is so much more difficult than in a large city (...) and then we have to face those affected when we do our shopping on our way home.

In the long run, the respondent believed that the local government would not retain its independence, but would merge with other local governments in the area to make decision making easier. Whether he is right is something only the future will show.

In Luleå, the respondents said that the financial crisis had been troublesome, although they believed that crisis was too harsh a word. The situation entailed budget reductions and personnel cuts, for example, in the school sector. Personnel cuts were said to be especially difficult, but there is not much else to do in a local government to save money. The respondents from Luleå believed that the city had handled the crisis well, and stressed that they did not believe that they could have handled the situation any differently, since they acted as soon as they learned of the problems. The financial crisis is said to have raised awareness that crises can indeed occur, which can only help the organization in the future. The current problem is described by the human resources director as something else entirely:

The difficulty is to find balance again, to start to invest while also making the planned cutbacks where needed. It is difficult to argue that we need to save money in some areas while investing in others.

The same respondent emphasized that restraint and investment were also mixed in this way during the period of crisis; this strategy became a political issue, and the opposition parties commented on it, claiming that it “sent mixed signals”. The counterargument was that it was important to maintain belief in the future, even though the current situation may seem problematic, since “you cannot put development on hold”.

The respondents describe other events that have been more troublesome than the financial crisis of 2008/2009. These events are more of the nature of crises that are internal or “closer to home”, such as the closure of industries or schools. Especially in Sotenäs and Luleå, respondents said that industrial closures would be the major problems in the future, since these areas are dependent on just a few industrial employers. They believed that having models or regulations to provide guidance, to help them know what to do, would provide security.

## The importance of models and regulations

Several respondents in the three studied municipalities discussed the matter of preparing for a crisis that they had no idea would strike. Given that the crisis started in America, how could they possibly have known it would affect Sweden? One respondent said that such situations call for strong environmental scanning, which in principle is impossible. Instead, they said that they had to trust SALAR reports, which were described as key shapers of Swedish local government action. In Luleå, the head of finance told how they excitedly waited for the next report, and how the situation was described as worse and worse each time. The respondents agreed that the crisis struck suddenly: “One day, it was a crisis”, as one of them put it. At the same time, however, one respondent from Sotenäs said that, “sooner or later a local government faces problems, so we should be prepared”. In retrospect, most respondents agreed that the local government could have exercised more foresight, but that they had learned from the experience and might handle the next crisis differently. Disseminating information earlier, both to residents and internally within the government organization, would be a way to prepare the organization for change. The respondents also expressed a need for clearer internal management; in Sotenäs, this need was an effect of the crisis: “We had no objectives or other management tools, but those are materializing now”.

In Alingsås, the respondents said that it could benefit an organization to undergo crisis, since crisis entails the possibility of change, directing attention to new priorities and to what is most important. They pointed out, however, that this presupposes organizational awareness that bad times follow good – which is easy to forget when everything is running smoothly. Respondents from Alingsås said that this awareness was formulated in a vision document, which they stressed was important for the city’s development. Among other matters, the vision document sets an objective for the city’s population as of 2019, the year of the city’s 400th anniversary. The vision was formulated to ensure that all Alingsås employees would strive for the same things, crisis or no crisis.

In Luleå, the respondents talked about the management models adopted, in their case, balanced scorecards, as well as the city’s vision and strategic plan, which are important for local government employees. The respondents stated that the balanced scorecard model took a long time to be accepted. The Luleå respondents also spoke of the difficulty of being alert to potential crisis when times are good, but said that internal management helped by ensuring that everyone agreed on what to do:

There are good relations between politicians and civil servants here, and it is important to have clearly defined roles for who is to do what when. No one was opposed to the action we took, and that was a strength.

The respondents from the three local governments stated that more efficient handling of finances would be optimal. This would entail saving in good times

and not having to save in bad times. However, good was said to have emerged from the crisis: as one respondent put it, “[It was] a time for slaughtering sacred cows and being innovative”. This meant that they were able to improve organizational efficiency, which they might have been forced to do sooner or later, and to test new ideas. However, innovative ideas were not at all evident in the three local governments, as the action all respondents referred to was budget cutbacks, often by the same percentage in all sectors, or trying to solve problems that could not be addressed under normal circumstances.

### **The state government interferes and the wolf is not coming**

State government financial aid to the local governments was described retrospectively as unnecessary, since the local governments ended up not knowing what to do with the money received. One respondent from Alingsås said that it was difficult to know where to put this money, since “you cannot hire staff for one year”. Another respondent called the money a “transitional amount”, and described it as a means to help the organization adjust to more difficult times. Several respondents referred to the story of the boy who cried wolf, which leads to the question of what happens when the wolf really comes. In Sotenäs the financial director said,

Support from state government did stop the economic crisis, and it also blocked creativity. It [i.e. the crisis] was an opportunity to improve efficiency.

Suddenly, there was no longer a need to act. This was said to be a problem for prosperous local governments lacking an understanding of the need for organizational change. Saving money is difficult, and the crisis was regarded as an opportunity to start doing this, but the state government’s temporary support stopped money-saving initiatives in their tracks. The fact that the media wrote about the crisis was beneficial, since citizens initially understood the need for cutbacks: “No one could argue that there was not a crisis”, as one respondent put it, given the big headlines that adorned the daily media during this period.

Several respondents stressed that the crisis was not over yet, but had instead just started. The financial director of Alingsås said:

The crisis is not over yet. Sweden and Germany are doing well but some others [are not] ... The European countries are dependent on each other and you have to conduct environmental scanning.

The mayor of Alingsås described the difficulties of returning local government services to their pre-crisis levels: citizens expect the same service levels as before, but it takes time to restore them. Restoring service was said to be difficult, especially given that additional financial support from the state government was not expected. The results of the changes made will then become obvious, according to the respondents.

## Discussion: crisis or no crisis?

The severe crisis that reports and forecasts predicted did not seem to have affected the local governments that much, and their operations continued almost as usual. However, the study finds that, while respondents stated that their local governments handled the crisis well, they nevertheless resorted to cutbacks and dismissals. The question is what local government actors thought they would have to do when they saw the initial forecasts. In hindsight, the crisis was regarded as an opportunity to change local government practices described as stable, perhaps too stable. Especially in local governments that found it difficult to make decisions because of closeness to the citizens affected, the crisis was regarded as an opportunity to solve problems, to finally create agreement regarding overdue change. Several respondents stressed that they had learned from the situation and would act differently next time. But how can they act differently in the event of a future crisis when the experience on which they base this prediction is not acknowledged as a crisis?

It is interesting that respondents do not want to call the situation a crisis, which exposes the retrospective property of sensemaking (Weick, 1995). After the fact, the situation was not deemed a crisis because it turned out to be one from which local governments benefitted. Moreover, the financial constraints did not turn out to be especially harsh, since the state government gave the local governments financial leeway. Initially, however, there was the perception of a definite crisis. According to Wittgenstein (1969/1972:25e), sense is something constructed based on earlier experiences, within our frames of reference, as indicated by the quotation, “What I know I believe!”<sup>2</sup> This is also a key aspect of the sensemaking approach, according to which sense is created based on our frames of reference and on our identities. When new knowledge is added to existing frames of reference, new sense is created. According to Weick (1995), sensemaking is tripartite, comprising order, interruption, and recovery. These elements can be all identified in the financial crisis: when *forecasts* of the crisis reached the local governments, their order was interrupted, leading to action in the form of cutbacks and dismissals. Therefore, when the actual crisis finally struck the local governments, they had already reached the recovery phase. For this reason, the consequences of the crisis are not perceived as crucial, because by the time the consequences had occurred, the local governments had already acted. Given the expectations, this is not very surprising, as government actors had expected a much worse crisis. The reports were alarmist, but what then happened did not correspond to what was expected. There are two reasons why the crisis did not turn out as badly as expected: local government expectations were unfulfilled, and the actors acted proactively at an early stage.

Another part of the explanation is that no one wants to associate his or her organization with the word “crisis”. Although the three examined local governments seem prosperous, it is uncertain whether examining a different selection would yield the same impression. The word “crisis” is negative and is not some-

thing that the interviewed actors wanted to use when describing their organizational identities. In retrospect, is it easiest to explain the nonexistent crisis with reference to stable organizations, given that sensemaking is done through identity construction. Weick (1995) emphasizes that the actors made sense of their situations based on how they perceived themselves. Another observation is that the financial crisis struck from the outside, emerging from the world economic situation, and was not initially an internal issue. The study demonstrated that blaming an outside agent is far simpler than blaming the internal organization of one's local government. This explains why other crises that originated "closer to home", such as industry closures, were regarded as more troublesome to local government.

#### Healthy crises and the problem of "crying wolf"

The respondents agreed that a crisis could be something beneficial. Some of them described the crisis as offering a way to "slaughter sacred cows" and be creative, and the crisis was said to have resulted in improved efficiency. The fact that the state government interfered was described as inhibitory, as blocking creativity. Several respondents described the situation as one of "crying wolf". However, why would one claim that the wolf was coming if not to warn people, and governments, to prepare themselves? In retrospect, the warning could be perceived as pointless, but is not that the point? Weick and Sutcliffe (2007) argue that, to deal successfully with uncertainty, an organization must react strongly to weak signals. The forecasts could be regarded as strong signals that something was not right, and the local governments did react to them. Weick's (1995) concept of enactment applies here: the local governments acted, and in doing so changed the conditions to which they had to respond. It could be added that the state government also reacted to strong signals of crisis by supporting the local governments. In retrospect, this was perceived as excessive, but that, again, is sensemaking after the fact.

Schutz (1967) has stressed that how an event is perceived expresses the actor's relationships with the world in general, and in this he is pinpointing something important. The studied local governments differed from each other, but they all had stable finances and functional organizations. They could handle difficulties partly because they were strong – as in the case of Sotenäs, they could afford to "go with the flow". In such a condition, a crisis can be healthy. The organizations are what Weick and Sutcliffe (2007) would call resilient. To sum up, a crisis can be good if the organization affected by it is stable. However, it is questionable whether or not the crisis indeed prompted the local governments to be creative and innovative. Slaughtering sacred cows is not creative; it merely solves old problems in old ways. The budget cutbacks and dismissals were not creative, but exemplify obvious and simplistic problem solving of a type seen before in local governments. It would in fact have been more creative to find ways *not* to change at all.

The study demonstrates that there are problems associated with being a prosperous local government, although these might be agreeable problems to have. The biggest problem described is that it is difficult to make people understand that change is necessary when finances are good and local residents are generally well off. This dynamic is crucial in the public sector: If the services are good, is there any reason to change? A crisis can then provide a well-needed “window of opportunity”, allowing changes to be made that would otherwise be difficult. This could be a reason to keep arguing that the crisis is yet to come, as some of the respondents do. From a political point of view, this can be a strategy for carrying through planned changes.

#### Is it possible to be prepared for a crisis?

The respondents stress the importance of plans, visions, and management models when preparing for the next crisis. The reasoning is paradoxical, however, as variation and improvising are crucial to learning (Weick, 1995). This means that “to learn is to disorganize and increase variety. To organize is to forget and to reduce variety” (Weick and Westley, 1999:190). Styhre (2003:25) describes the same paradox: “Knowledge management is an oxymoron. Knowledge is processual and fluid, management is aimed to control and order”. The consequence is that it is impossible to be prepared: No crisis is like any other, which might be the point of calling something a crisis. If a situation happens repeatedly and local governments have instruments to deal with it, can it then be regarded as a crisis? Some of the respondents referred to earlier crises, such as the Swedish banking crisis of the 1990s, and said that they should have learned from them. Deroy and Clegg (2011:8) argue, on the other hand, that “repetition includes difference”, and it is well known, as Heraclitus long ago pointed out, that it is impossible to step into the same river twice. Wittgenstein (1969/1972) argues that all action requires reflection, which implies that nothing can be regulated a priori. Weick and Sutcliffe (2007) also note that plans and routines are problematic as they create assumptions that certain actions lead to certain results; moreover, they cannot handle new situations. This does not mean that plans and strategies are unimportant. The respondents highlight the importance of having management models, which is understandable from a sensemaking perspective. They are looking for what Tsoukas and Shepherd (2004) call foresight, and in contemporary organizations that seems to be associated with management models. Nevertheless, if the vision applied in Alingsås or the balanced scorecards used in Luleå are deemed important, is that simply because they create a feeling of safety? Are they simply manifestations of the “language game” on which local government actors base their actions? Is the importance of visions and management models that are “talked into existence” akin to that of the maps described by Weick (1995)? What the respondents want is institutionalized behaviour on which to rely, which Deroy and Clegg (2011) argue is missing when unexpected events occur.



Here is a paradox: By planning for the next crisis, the learning is erased. Such planning might also reduce innovation, since the local governments will then rely on existing models of action and routine, no matter what the crisis is about. As Akrich et al. (2002) stressed, innovation is not linear: “innovation by definition is created by instability, by unpredictability, which no method, however refined, will manage to master entirely” (2002:195).

## **Concluding discussion**

This article contributes to research into financial crises and their effects on public-sector organizations. It does so by highlighting the local government level as important in grasping the crisis and its effects, broadening our understanding of the crisis *per se*. How were the local governments affected by the crisis, and how do the involved actors understand these events in retrospect? First, it can be concluded that the interviewed actors do not perceive the events of 2008/2009 as constituting a crisis at all. At the same time, they acted so as to adapt their organizations to changed circumstances, acting at an early stage of the unfolding course of events when something much worse was expected. There is a demand for planning to be prepared when the next crisis occurs, so that quick action can be taken. Such quick action, however, was what the local governments took in the most recent crisis.

While crises are generally said to foster creativity, innovation, and efficiency, this study demonstrated that the recent crisis was used simply as an opportunity to solve old problems in old ways. “Slaughtering sacred cows” is not creative, and should have been done long ago, but organizational inertia prevented it. The management models that are assigned crucial importance can in this sense also serve to reduce innovation and creativity, since they create routines and predetermined actions that reduce the ability to innovate. Nevertheless, the models might be indispensable to organizations by creating a sense of safety and compelling actors to act. However, the actors – in this case leading politicians and civil servants – still argue that the real crisis might still come. They do not want to be affected by the crisis but to use it, as an argument, as a reason for acting and possibly for “slaughtering sacred cows” after all. The respondents’ reasoning is paradoxical, since they stress learning and innovation while seeking secure solutions in organizations, management models, and incremental reforms. A remark by Hines (1988) provides an apt conclusion, highlighting the importance of communicating what is crucial and what is not. The interviewed actors are part of constructing the story of the financial crisis in hindsight, and that is an important notion to keep in mind.<sup>3</sup>

It seems to me, that your power is a hidden power, because people only think of you as communicating reality, but in communicating reality, you construct reality. (Hines, 1988:257)

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## Notes

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<sup>1</sup> According to Anderson (2006), enactment is Weick's most referenced concept in the academic literature.

<sup>2</sup> Weick (1995:133) uttered a similar statement: "believing is seeing".

<sup>3</sup> Here, Hines is referring to financial information, but the meaning is applicable in other areas as well.