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Accepted Paper

UNCERTAINTY, STRATEGIC SENSEMAKING AND ORGANISATIONAL FAILURE IN THE ART MARKET: WHAT WENT WRONG WITH LVMH'S INVESTMENT IN PHILLIPS AUCTIONEERS?

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Uncertainty, Strategic Sensemaking and Organisational Failure in the Art Market: What Went Wrong with LVMH's Investment in Phillips Auctioneers?

Abstract

Strategic decision-making in volatile and uncertain environments, such as the art market, is not only instigated by rational interpretation of the external environment, but also by expert-based intuition. This paper investigates organisational failure at Phillips auctioneers between 1999 and 2002, a period in which it was owned by the multinational luxury goods conglomerate Louis Vuitton Moët Hennessy (LVMH). We developed a framework for strategic sensemaking in art organisations that includes the processes of scanning, interpreting, strategising, acting and adjusting, which can take place in non-linear and recursive patterns in order to support continuous loops of improvement. Our analysis identifies the merits of intuitive decision-making when realising a novel artistic and entrepreneurial vision, such as that which established Phillips as a boutique auction house. However, it also highlights the limitations of emotional and opportunistic decision-making which leads to blinded management if one or more of the processes of strategic sensemaking are ignored.

Keywords

Strategic sensemaking; organisational failure; art market; auction houses; uncertainty

1. Introduction

Although ‘trial-and-error’ is a widely accepted learning mechanism for organisations, the literature of strategic management often dismisses the useful lessons which can be learned from the analysis of failure. This research focuses on organisational failure, which refers to the discontinuance of a business or ownership of it, or to temporary performance problems which do not necessarily require the end of the firm (Amankwah-Amoah, 2016; Mellahi & Wilkinson, 2004). Existing research is clustered around the deterministic perspective which identifies sources of organisational failure in the external environment of firms, such as regulations, technological change, competition and unforeseen events (Amankwah-Amoah & Zhang, 2015; Hager et al., 1996); and the voluntaristic perspective which addresses failure as a result of agency, and in particular, as an outcome of poor leadership and decision-making, as well as maladministration, fraud and corruption (Amankwah-Amoah & Debrah, 2010). However, both perspectives are inadequate when treated separately. By placing too much emphasis on external factors, deterministic perspectives often dismiss the strategic choices of agents (Child, 1972); while voluntaristic perspectives cannot fully explain the strategic fit of firms that operate within uncertain environments that rely on creativity and innovation (Bilton, 2007; Caves, 2000).

Due to these criticisms, an integrative approach has emerged which scrutinises organisational failure as the interaction of internal and external factors (Amankwah-Amoah, 2016). An integrative approach is particularly useful as a way of analysing failure within uncertain environments that affect the interpretations and actions of people in organisations (Miller & Shamsie, 1999). Under these circumstances, rationality is bounded (Simon, 1957), and strategic decision-making relies on sensemaking, which is defined as the ability of individuals to “understand issues or events that are novel, ambiguous, confusing, or in some other way violate expectations” (Maitlis & Christianson, 2014:57). Although sensemaking aims to streamline decision-making by retrospectively pursuing corrective actions, strategic decisions within complex and uncertain environments are often complemented by the intuition of agents, derived from their perceptions, emotions, experience or opportunism (Salas et al., 2010; Sonenshein, 2007). However, the role of intuition in this process is contested, as it may lead to creative cognitions and innovative problem-solving (Calabretta et al., 2017); or to emotional decision-making and organisational blindness (Amankwah-Amoah, 2016). For this reason, we question the conditions under which the process of strategic sensemaking allows organisations to avoid failure within uncertain environments.

This research focuses on the volatile and uncertain environment of the art market. To answer our question, we develop the literature of strategic sensemaking to identify new paths of decision-making within art organisations, which do not necessarily innovate through a rational analysis of the external environment, but through the expertise-based intuition of decision-makers in their attempt to promote a novel aesthetic vision while achieving commercial success (Lampel et al., 2000). We expand the framework of strategic sensemaking, based on the sequential processes of scanning, interpreting and acting (Thomas et al., 1993), by inserting the additional processes of strategising and adjusting as determinants of organisational success. The process of strategising is defined within the institutional context of the art market, and delineates the construction of strategy within art organisations based on the knowledge, professional judgement and insight of their leaders, their legitimacy within it, and their ability to introduce artistic innovations. The process of acting leads to the construction of an organisational configuration based on the cognitive, behavioural, normative and structural responses of people within organisations that support strategising (Meyer et al., 1993). Finally, we argue that strategic fit within uncertain and innovation-driven environments necessitates a sensemaking process of adjusting that facilitates continuous loops of improvement, according to which agents make sense of warning signals and perform corrective actions in the strategic and/or organisational configuration to avoid decline (Amankwah-Amoah, 2016).

Our conceptual framework is developed within the context of the high-end auction industry, in which uncertain demand is caused by the volatility of the art market and the unpredictable behaviour of buyers (Caves, 2000). More specifically, our framework is illustrated by the case of the auction house Phillips in the period from 1999 to 2002, when it was owned by the multinational luxury goods conglomerate Louis Vuitton Moët Hennessy (LVMH). Phillips, bought by Bernard Arnault's LVMH, and then run by Simon de Pury and Daniella Luxembourg, had all the ingredients to break the existing duopoly of Sotheby's and Christie's and to become established as a high-end auction house (Adam, 2014). However, LVMH's strategy for Phillips failed due to a combination of emotional decision-making, high risk-taking propensity, and organisational blindness which obstructed strategic fit and led to the luxury conglomerate making an early exit from the auction house. In the next section, the literature of uncertainty, strategic sensemaking and failure in the art market is reviewed in order to construct our analytical framework. We then describe our methods and present the case of Phillips. Finally, based on our conceptual framework, we analyse the case of Phillips to extract lessons for strategic sensemaking and organisational failure literature.

2. Uncertainty, Strategic Sensemaking and Failure in the Art Market

2.1. Uncertainty and strategic sensemaking in the art market

The art market is a marketplace in which fine art is traded as a commodity and acquires a price (Graw, 2009). More specifically, the visual arts market is divided into the primary market, which facilitates the trading of newly created art; and the secondary market, which includes the resale of artworks through auction houses and private sales (Velthuis, 2005). Art dealers and auction houses are therefore the two main intermediaries in the art market and are responsible for the vast majority of the art trade: in 2016, \$27.9 billion was traded through dealers and \$16.9 billion through auction houses (Pownall, 2017). Art dealers, who sell either through their galleries or via art fairs, operate in both the primary and secondary art markets, while auction houses concentrate predominantly on the latter (Robertson, 2015). The case of the art market is unique because it facilitates trading art as a cultural good, which has a symbolic perceived value, and as a commodity with a market value, which represents the amount that a buyer is prepared to pay in order to acquire it (Graw, 2009).

Uncertainty is a key characteristic of the art market. Demand in the primary market is uncertain because emerging artists often lack the legitimacy required to attract buyers (Delacour & Leca, 2017); while in the secondary market, demand is uncertain, as it is not known whether a new buyer will be prepared to pay a higher price than the previous one. As a result, galleries and auction houses develop exhibitions and sales without being able to predict demand and critical acclaim with accuracy (Caves, 2000). Miller and Shamsie (1999) identify three types of uncertainty in cultural organisations. The first is ‘environmental state uncertainty’, which refers to their inability to accurately forecast and control demand, due to the volatility of cultural commodities (Miller & Shamsie, 1999). Environmental state uncertainty may include factors endogenous to the art market, such as shifting trends, audiences and taste; changing geographies of cultural centres within and across cities; the critical acclaim and media reception of sales and exhibitions; the influence of stakeholders, such as the local community or policy-makers, on an art organisation; the rise of new art-tech intermediaries such as online galleries and auction platforms which may threaten traditional business models (Dempster, 2006; Samdanis, 2016); and factors and events exogenous to the art market, such as the recent global economic recession or the rise of emerging economies and of high-net-worth individuals within them (Khaire, 2015; Robertson, 2015).

The second type of uncertainty in art organisations is ‘organisational effect’, which is a result of a lack of the understanding, skills, knowledge and/or resources required to encounter the unpredictability of the external environment (Miller & Shamsie, 1999). This type of uncertainty refers fundamentally to the ability of art organisations to use relevant resources in order to develop a sustained artistic strategy and organise themselves around it (Barney, 1991; Maitlis & Lawrence, 2003). The third type of uncertainty is called ‘decision response’, and refers to the difficulty individuals encounter in predicting the outcome of specific decisions (Miller & Shamsie, 1999). These decisions can be related to selecting and pricing (or evaluating) artworks in gallery exhibitions or auction sales (Velthuis, 2005). Although price transparency in the art market has recently increased due to the existence of art price databases and indices (Coslor & Spaenjers, 2016), available information is incomplete because recorded prices only represent artworks sold publicly through the auction process and exclude private transactions in galleries and auction houses (Coslor, 2016). Therefore, the valuation of an artwork can rarely be based on complete information; instead, available information is complemented by qualitative assessments. Hence, decision-response uncertainty is, on the one hand, an outcome of cognitive limitations encountered by buyers and sellers in the art market who are constrained by their bounded rationality (Simon, 1957), as they are rarely able to use every factor, whether endogenous or exogenous to the art market, to support their decisions; and on the other hand, an outcome of equivocality, which includes the existence of several different, simultaneous interpretations about the meaning and value of artworks (Caves, 2000; Graw, 2009). As a result, many strategic decisions in art organisations are based on the artistic vision, expertise or intuition of their leaders and stakeholders (Akinici & Sadler-Smith, 2012; Sonenshein, 2007).

As a consequence, success or failure relies on the ability of individuals in art organisations to take strategic decisions under the conditions of uncertainty caused both by the information asymmetries that exist in their external environment, and by the cognitive boundaries they experience (Caves, 2000). In other words, success or failure in art organisations relies on the sensemaking of these individuals, which is broadly defined as “the process of social construction that occurs when discrepant cues interrupt [their] ongoing activity, and involves retrospective development of plausible meanings that rationalise what people are doing” (Maitlis & Sonenshein, 2010:551; Weick, 1995; Weick et al., 2005). However, sensemaking differs from intuition which is “used to describe decision-making behaviour that is speedy and for which the expert is unable to describe in detail the reasoning or other processes that produced the answer” (Akinici & Sadler-Smith, 2012:107, emphasising Simon, 1957).

Current conceptualisations of strategic sensemaking are based on causal thinking, as strategy formulation relies on the sequential processes of scanning (gathering information), interpreting (developing ways to interpret information) and acting (taking decisions that lead to efficient organising), in response to relevant environmental triggers (Maitlis & Lawrence, 2003; Maitlis & Sonenshein, 2010; Thomas et al., 1993). Nevertheless, strategic decisions in art organisations are based not only on rationality, but also on the decision-makers' "insight and intuitive understanding of how creative resources can be discovered and nourished" (Lampel et al., 2000: 265). The process of strategising in art organisations, defined as enacting and practising strategy, can be informed by the domain-specific knowledge and information, professional judgement, insight, and aesthetic vision of key decision-makers (Jarzabkowski, 2004; Salas et al., 2010; Weick et al., 2005). Consequently, strategising, informed by rational and intuitive decisions, leads to the construction of strategic configurations in art organisations, with the aim of legitimising their identity as connoisseurs, experts and innovators in the art market.

2.2. Strategic configurations in the art market

According to Townley et al. (2009:941), "as economic production relies on certainty, or at least efforts to reduce unpredictability and 'manage risk', creative industries act to reduce market uncertainty through a variety of mechanisms". These mechanisms refer to the ways in which organisations internalise 'the rules of game' from their institutional environments, and make strategic decisions based on their hybrid aesthetic and commercial logic (Eikhof & Haunschild, 2007). However, the strategies of organisations within the creative industries should vary across different creative domains: for instance, organisations in the art market are more geared towards artistic novelty, trading tangible cultural objects, in contrast to performing arts organisations which are inclined towards artistic virtuosity, aiming to provide intangible cultural experiences (Dempster, 2006; Gilmore, 1988; Petterson, 2014). In the remainder of this section, the process of strategising within art organisations will be analysed, based on the components of knowledge, legitimacy and artistic innovation.

Knowledge. Art dealers and auction houses that occupy powerful positions in the art market can mitigate uncertainty by exploiting information asymmetries which are related both to their object-based knowledge and to their access to art market and art world information. Object-based knowledge refers to the connoisseurship of experts concerning the symbolic and economic value of an artwork, their access to that artwork's provenance (ownership history), and due diligence (authenticity reports), as well as their ability to authenticate a cultural object

through vetting (Hackforth-Jones, 2016). In contrast to the process of authenticating an artwork, which should be definitive and objective (i.e. an artwork is either authentic or not authentic), the process of pricing an artwork relies to a large degree on the ‘gut feeling’, expert-based intuition and professional judgement of sellers who combine their domain-specific, tacit knowledge with historical art market information (Salas et al., 2010; Velthuis, 2005). Within auction houses, these processes are followed in order to provide the high and low estimate for an artwork, but in private transactions within galleries or auction houses, the final prices of artworks often result from negotiations between buyers and sellers. Finally, art-world knowledge includes the access of art dealers and auction houses to undisclosed information and their understanding of ways of promoting an artwork within the art-world ecosystem which could increase its future symbolic and economic value, such as the interest of certain collectors in it; the inclusion of an artist’s work within a temporary exhibition or the collection of a museum; or its selection for national and international biennials.

Legitimacy. In the absence of set rules with which to define ‘good’ art, the role of intermediaries in the art market is crucial in terms of distinguishing and legitimising art (Bourdieu, 1984). The ability of these intermediaries to construct the symbolic value of an artwork depends on their power position in the artistic field, which in turn derives from their knowledge and legitimacy as experts (Bourdieu, 1993). Art galleries, art fairs and auction houses tackle uncertainty, essentially as a matter of building trust and managing their reputation within the art market. The success of these art organisations relies partly on the management of their symbolic resources, which form the basis for clients’ trust in it. These symbolic resources include, for instance, the reputation of an auction house which is built up through “repeated dealings” (Caves, 2000:335). In contrast, the failure of an auction house to detect fakes or forgeries can harm its reputation and undermine the trust of its clients (Bellingham, 2016). While economic value is determined in the art market, the symbolic value of an artwork is constructed in the artistic field, which includes galleries, art fairs, biennials, foundations and museums (Becker, 1982; Bourdieu, 1993). The symbolic value of an artwork forms the basis of its economic value, as buyers’ decisions are based on personal taste, and often also on the views of art critics or advisers. The high prices of artworks achieved by art galleries and auction houses can also have a symbolic effect on buyers and audiences, often attracting media attention (i.e. record sales), while legitimising these vendors (Velthuis, 2005). Hence, art dealers and auction houses reduce uncertainty by occupying a powerful position in the art market, engaging in networks of mutual recognition, such as their access to an elite clientele of collectors (Bourdieu, 1993).

Artistic innovation. The success of art organisations depends on their ability to set new trends, often by taking risks and experimenting with their cultural offering (Caves, 2000). On the basis of artistic innovation, art organisations compete both locally and internationally (Castañer & Campos, 2002). Art organisations instigate ‘content artistic innovation’, by selecting, representing or displaying new artists, as well as ‘form artistic innovation’ when they develop innovative ways in which their audiences can interact with art (Castañer & Campos, 2002), such as how an exhibition is curated, and how the aesthetic experience of the audience is influenced by the architecture and spaces of these art organisations (Putnam, 2009). For example, the transformation of the high-end auction into a glamorous evening event was inaugurated in 1958, by the director of Sotheby’s, Peter Wilson, who orchestrated a memorable experience for the audience, in which the preview, the catalogue and the performance of the auctioneer all played major roles in generating demand and attracting media attention (Bellingham, 2016). Art organisations also engage with art-business innovation by enriching their business activities or by expanding them into other parts of the art world: Sotheby’s, for instance, owns the S|2 Gallery in London and uses it to promote private sales within an experimental gallery context.

2.3. Organisational configurations in the art market

According to the configurational approach, action in organisations is emergent, idiosyncratic, situational and context-specific, and forms the basis of cognitive and behavioural patterns, processes, practices and structures that derive from strategic sensemaking (Meyer et al., 1993). In contrast to the contingency approach, according to which firms have to identify ‘one best way’ to fit into an environment, the configurational approach stresses that sensemaking is influenced by the biases of individuals and the power relations within organisations, especially under conditions of uncertainty and equivocality (Simon, 1957). The section below analyses the ways in which the sensemaking process of acting leads to the construction of organisational configurations based on leadership, the resources of the firm and organisational structure.

Leadership. The personality traits of the leaders of organisations reflect on their organisational configuration (Korunka et al., 2003). This is particularly true in the case of art organisations, as the vast majority are family or individual businesses and small enterprises (Velthuis, 2005; Resch, 2015). Leaders of these organisations embody authentic leadership (Ladkin & Taylor, 2010). A typical narrative for many art dealers, including iconic dealers such as Paul Durand-Ruel and Leo Castelli, is intended to demonstrate their authenticity as ideological leaders who

identify with the artists they represent, with the aim of solidifying their longevity both practically and historically (Wijnberg & Gemser, 2000; Winkleman, 2015). Interestingly, the CEO of the high-end auction house is usually a back-stage figure, while the front-stage leader is the auctioneer, who often acquires celebrity status: a good example of this is the former Sotheby's auctioneer Tobias Meyer who became famous for his showmanship during auctions (Graw, 2009). In addition, leadership style is also important because it determines the processes and norms that underpin the involvement in strategising of an organisation's staff. The art dealer Larry Gagosian is often portrayed as an autocratic leader who prioritises selling art, but in fact, the international reputation of his gallery relies on a decentralised structure in which his sales associates can operate autonomously and in close collaboration with artists and collectors (Resch, 2015). Finally, leadership in art organisations is associated with the propensity to take risks (Korunka et al., 2003). In art galleries, this risk-taking propensity is related to their development of experimental exhibitions, although this cannot be easily measured (Resch, 2015). However, in high-end auction houses, risks are quantified in terms of auction guarantees which are used to attract consignments (Adam, 2014; Health, 2012).

Firm's Resources. Resources are defined as “all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” (Barney, 1991:101). Art galleries and auction houses possess physical capital resources, such as economic capital, artworks and presence in prestigious locations and also online (Khair, 2015). In particular, technology in auction houses is used to enhance their authentication capabilities and to strengthen their art market intelligence (Samdanis, 2016). The most important resource is perhaps human capital, which includes the expertise, knowledge and relationships of individuals working in a firm. Art organisations invest significantly in the recruitment of key individuals from the art world, such as art consultants or museum directors, in their attempts to broaden their social network and elite clientele, and to establish their reputation as connoisseurs in certain segments of the art market (Winkleman, 2015). For instance, in 2014, Phillips reopened its watch department in collaboration with Aurel Bacs, “the charismatic, passionate star auctioneer who ran the watch department at Christie's for a decade” (Lankarini, 2015, n.p.). The success of firms in the market relies on their accumulated symbolic capital, which represents the status and reputation of their organisation, as well as their position in the artistic field as connoisseurs who can legitimately identify and consecrate artists, and then manage their reputation through a durable network of clients (Bourdieu, 1993).

Organisational structure. With the exception of high-end auction houses and some blue-chip galleries which demonstrate high degrees of centralisation, formalisation and specialisation, the majority of art organisations employee flat, flexible and informal structures. Art galleries and small auction houses often attempt to reduce uncertainty by operating as adhocracies, providing the flexibility required to develop novel shows and sales by utilising diverse skills and agents, as well as both internal and external knowledge and expertise (Bilton, 2007; Caves, 2000; Resch, 2015). In contrast, high-end auction houses are organised as bureaucracies with as many as two thousand employees, international operations and specialised departments, such as ‘Contemporary Art’ or ‘Islamic & Middle Eastern Art’, in order to enhance their knowledge and reputation within these art markets. However, these auction houses also deploy formal and informal structures within and beyond their boundaries. In early 2016, for example, Sotheby’s paid \$85 million to acquire the art consultancy Art Agency Partners (AAP), owned by Amy Cappellazzo, who had until 2013 been the high-profile chair of Christie’s post-war and contemporary art department, bringing to the business her expertise in modern and contemporary art, together with her rich network of clients (The Economist, 2016).

2.4. Organisational failure in the art market

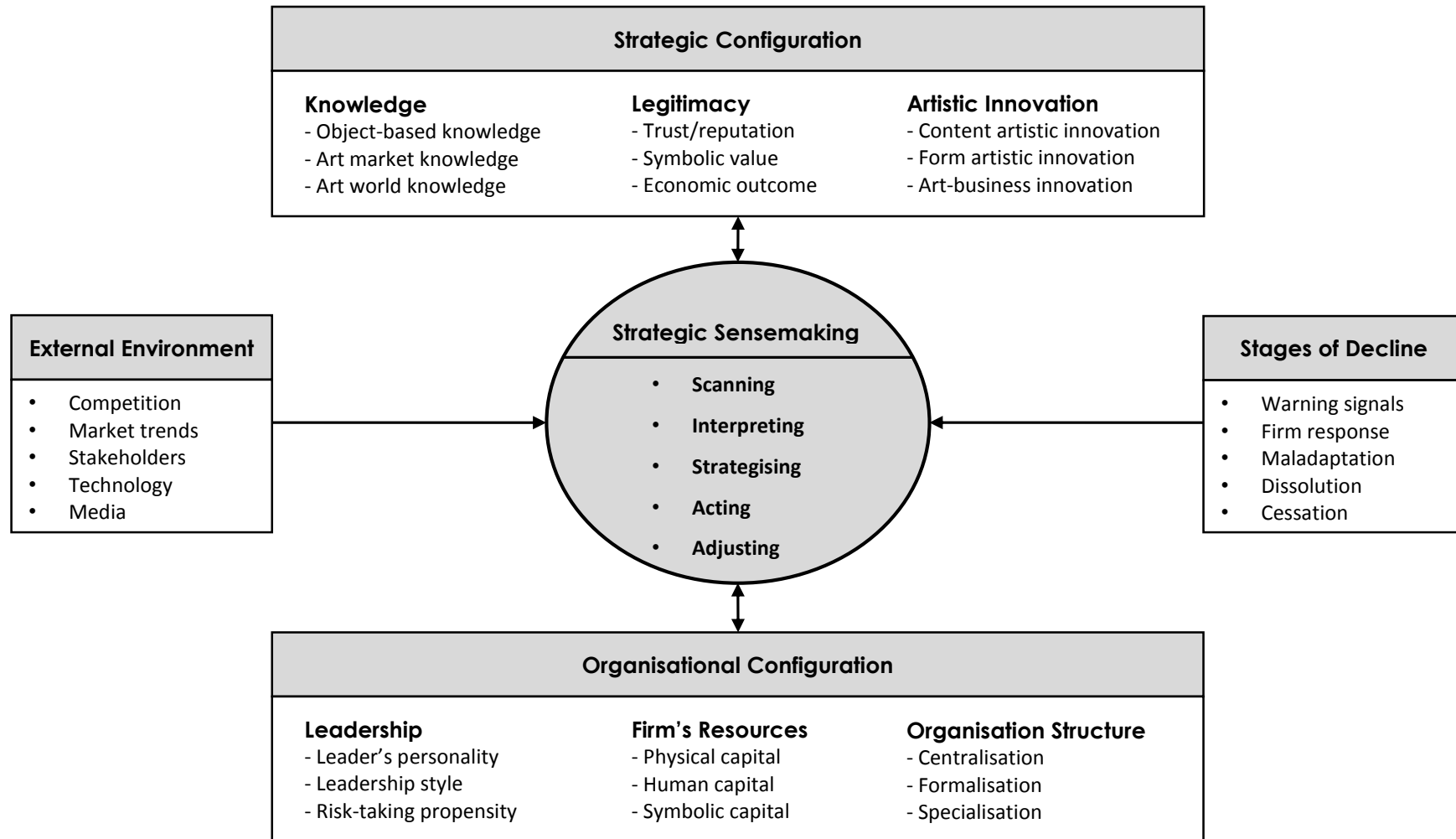
Strategic sensemaking within an organisation should include the process of adjusting its strategic and organisational configuration, in order to impede or avert organisational decline, known also as the stages of decline (Amankwah-Amoah, 2016). Adjusting is a sensemaking process in which inadequacies in the performance of an organisation are discovered and exposed before corrective actions are introduced (Salas et al., 2010). According to Amankwah-Amoah (2016:3392), “the process of decline can be seen as the shrinking and deterioration of resources and capabilities of the firm, which then causes it to lose legitimacy and ability to self-govern”. Corrupt or fraudulent leaders can cause organisational failures, resulting in a loss of legitimacy for these firms. For instance, in the early 2000s, a price-fixing scandal orchestrated by the principal owner and chairman of Sotheby’s, Alfred Taubman, and the CEO of Christie’s, Christopher Davidge, harmed the reputation of both organisations, undermining customers’ trust in them (Vogel & Blumenthal, 2002).

The process of adjustment requires recognition of and response to early warning signals, such as a decline in resources, sales and expertise (Weitzel & Johnson, 1989). The failure of art galleries and auction houses may result from their inability to find buyers, which could be seen in turn as an inability to generate demand and to value artworks accurately (Christopherson,

2014). Not only can individual art works fail to sell, but an entire sale can also be considered unsuccessful if total sales do not reach the total reserve price. Leaders in art organisations may encounter decision-response uncertainty when responding to weak performance by downsizing or restructuring, causing failure by maladaptation, either in the form of inappropriate responses or an inability to adapt to changing conditions (Amankwah-Amoah, 2016). The process of sensemaking is also apparent in the stages of dissolution and cessation, when decisions to close operations and terminate a firm's existence are taken too early or too late. More broadly, the process of adjusting includes corrective actions in response to earlier predictions about performance (Salas et al., 2010). As a result, adjusting can help art organisations to avoid failure by clearly setting key performance indicators, building learning mechanisms within art organisations that aim to upgrade their knowledge, skills and expertise (Pandza & Thorpe, 2009), and by developing processes to respond to crisis situations.

Figure 1 presents a conceptual framework for strategic sensemaking in art organisations. Initially, it should be noted that strategic sensemaking mediates the strategic and organisational configurations which are entangled with each other. For instance, symbolic capital is not automatically translated into the construction of symbolic value for artworks, although this may happen through the creation of innovative exhibitions, or by using informal relationships to place an artwork in an important private collection. In addition, the instigator of strategic sensemaking can be: (1) the analysis of the external environment, as decision-makers use their causal thinking to interpret and translate information into organisational action (Thomas et al., 1993); (2) the tacit knowledge, experience, professional judgement and vision of leaders in art organisations, who use their intuitive thinking to deploy strategic configurations that aim to establish their reputation in the art market as trusted and innovative vendors (Salas et al., 2010); and (3) the analysis of the organisational configuration of an art organisation, reflecting on questions such as 'who are we?', 'what do we know?', 'whom do we know?' within a process of value creation that requires what is known as effectual thinking (Savasrathy, 2001). Although intuitive thinking is important if art organisations are to promote novelty and originality, causal and effectual thinking should complement strategic sensemaking to ensure the commercial and organisational feasibility of an artistic strategy. Hence, the five processes of strategic sensemaking can be performed in a non-linear way, but the presence of all five is required in order to place an art organisation within a continuous loop of improvement.

Figure 1: A Conceptual Framework for Strategic Sensemaking in Art Organisations



Source: authors

3. Research Method

This paper investigates the role played by strategic sensemaking in organisational failure within the uncertain and volatile environment of the auction industry, using the instrumental case of the auctioneers Phillips (Caves, 2000; Stake, 1995). Strategic sensemaking is analysed through the historical case of Phillips, focusing on the organisation as the unit of analysis (Gibbert & Ruigrok, 2010; Silverman, 2000; Stake, 1995), and scrutinising social events which are ‘situated in time and space’ during the period between 1999 and 2002, when Phillips was under the ownership of LVMH (Skocpol, 1984). The paper investigates a single case study in order to examine the ways in which the processes of strategic sensemaking (scanning, interpreting, strategising, acting and adjusting) influenced the strategic and organisational configuration of Phillips. It then critically evaluates the impact of strategic sensemaking on the organisational failure of Phillips within LVMH.

The case of Phillips was selected because of the failure of the firm despite its receipt of significant financial support from the luxury goods conglomerate LVMH. This case study is based on secondary data collected from academic publications (e.g. Haruvy et al., 2008; Heath, 2012), magazine articles (e.g. *The Economist*, 2002; 2011; 2016), specialist books (e.g. Adam, 2014; de Pury, 2016; Luxembourg, 2014), and annual reports (e.g., LVMH, 1999; 2000; 2001; 2002), which provide rich information about the activities and strategy of the auction house and the luxury firm, and consider a wide variety of projects and strategies during the historical period investigated. A historical case study is an appropriate way of studying sensemaking and organisational failure, because it provides an opportunity to access internal and external sources of data, which are both synchronous and retrospective (Table 1). While the internal sources indicate sensemaking as manifested in discourses of action within an organisation, the external sources expose the ways in which a firm is perceived by its stakeholders, media and commentators (Bednar, 2012; Taylor & Robichaud, 2004). Our analysis of sensemaking at Phillips is also based on sources which are synchronous and retrospective in regard to the time of the events. While synchronous interpretations reveal the sensemaking processes which took place at the time of the events, retrospective interpretations of failure are valuable because they are imposed after the events, “as participants seek to make sense of, and synthesize the many possible meanings available to them” (Brown & Jones, 1998:74).

Table 1: Research Template and Sources of Data

Level of Analysis	Data Source	Type of Text
1. Internal Sources (Synchronous)	LVMH (1999) LVMH (2000) LVMH (2001) LVMH (2002)	Annual Report Annual Report Annual Report Annual Report
2. Internal Sources (Retrospective)	Luxembourg (2014) De Pury (2016)	Special Interest Book Autobiography
3. External Sources (Synchronous)	Adam (2002) Antique Trade Gazette (2003) ArtPrice (2003) Bennett (2003) Cuozzo (2000) Scheep (2001) Sorkin & Vogel (2002) The Economist (2001) The Economist (2002) Underhill (2001) Vogel (2000) Vogel (2001)	Magazine Article Magazine Article Art Market Report Magazine Article Magazine Article Magazine Article Magazine Article Magazine Article Magazine Article Magazine Article Magazine Article Magazine Article
4. External Sources (Retrospective)	ArtPrice (2017) Adam (2014) Ashenfelter & Graddy (2005) Bellingham (2016) Business Report (2004) Darby (2016) Donzé (2018) Haruvy et al. (2008) Heath (2012) The Economist (2011) Vogel & Blumenthal (2012)	Art Market Report Special Interest Book Academic Journal Publication Academic Book Chapter Magazine Article Academic Book Chapter Academic Book Chapter Academic Journal Publication Special Interest Book Magazine Article Magazine Article

Source: authors

The method employed to analyse the data was within-case analysis, which took place through the process of narrative-writing, integrating the findings of the case study with the processes of strategic sensemaking, as outlined in our conceptual framework (Yin, 1994). Analysing strategic sensemaking and organisational failure requires a process of reflexivity on behalf of the researcher in terms of interpreting both historical events and the interpretations surrounding them (Alvesson & Sköldbberg, 2009). Reflective research can unlock approaches to strategic sensemaking beyond rational decision-making (Thomas et al., 1993), because it makes the researcher aware that there are countless empirical possibilities and socially constructed truths. This means that attention shifts from rigidly following a research protocol to justifying in a self-critical spirit why certain approaches have been taken in this research (Alvesson & Sköldbberg, 2009).

Based on our conceptual framework, we argue that strategic sensemaking and organisational failure are situational and idiosyncratic to a firm, industry and context. As a result, our study lacks external validity, as the findings of this study cannot be generalised beyond the context investigated (Denzin & Lincoln, 1994). However, this lack of external validity is compensated for by the study's internal validity, providing a conceptual framework that could be used to analyse organisational failure as a dynamic phenomenon in the art market. More specifically, the analytical generalisation of our framework is based on abductive reasoning (Dubois & Gadde, 2002), which requires an inductive contextualisation of the strategic configuration of firms within a particular institutional context based on prior research (i.e. knowledge, legitimacy and artistic innovation in the art market) before the deductive application of the framework to a particular context (i.e. the case of Phillips). This conceptual framework could enable other researchers to replicate the findings of this study, as well as analysing cases of art organisations which face similar conditions of uncertainty, such as other auction houses, art galleries or art fairs. Finally, the reliability of this study is ensured by using multiple, diverse sources of information (Denzin & Lincoln, 1994).

4. The Case of Phillips (1999-2002) in the Auction Industry

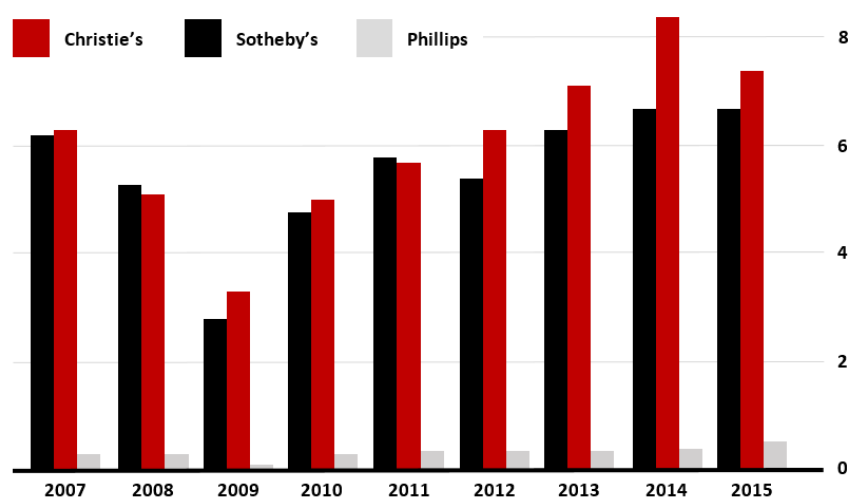
4.1. An overview of the auction industry

Fine art auction houses are famously resilient organisations. Sotheby's and Christie's, the two largest auction houses in the world, have existed since 1744 and 1766 respectively, accounting in 2016 for almost half of the \$16.9 billion global auction market (Figure 2; Heath, 2012; Pownall, 2017). The rise of British art auctioneers, such as Christie's, Sotheby's, Phillips and Bonhams, is largely attributed to the excessive supply of fine art consigned to Britain by the displaced French aristocracy during the aftermath of the French Revolution in 1789 (Bellingham, 2016). For centuries, the British aristocracy has built strong connections with the two main auction houses, Sotheby's and Christie's, forming a loyal clientele with an appetite for cultural consumption. However, the role of auction houses changed at the beginning of the 20th century to mainly supplying the 'wholesale' secondary market and selling to art dealers.

Auction houses constitute an important intermediary within the art market, concentrating buyers and sellers in a single location. The auction industry is generally considered to be a three-tier market (Caves, 2000), and each of the three tiers encounters different conditions of risk and uncertainty. The first tier of high-end auction houses, based on the volume of art trade,

consists of auction houses such as Christie’s and Sotheby’s (Pownall, 2017). These auction houses face uncertainty when sourcing valuable artworks, as fierce competition reduces their bargaining power over consigners, leading them to take significant risks, including the provision of financial guarantees to secure consignments (Adam, 2014; Heath, 2012). The second tier resembles the first by trading in “highly-valuable and well-known” collectibles worldwide, although in lower volume (Caves, 2000:334). Second-tier auction houses are mainly concerned with staging a limited number of high-quality, often niche-market auctions, such as in design (e.g. Phillips) or antiques (e.g. Bonhams); for them, shifting trends like the rise of contemporary art can become an important source of uncertainty. The third tier includes peripheral, often family-owned, auction houses, which offer a smaller range of more localised objects that generally “slide into the categories of decorative arts and household goods” (Caves, 2000:334). Third-tier auction houses may face risks associated with an over-reliance on certain clients and, in some cases, the family members who maintain these connections; it is uncertain whether these local networks of clients will be maintained, especially with the rise of online auction houses (Heath, 2012; Khaire, 2015). Nevertheless, the boundaries between the three tiers are not always clear, as high-end auction houses increasingly target the most profitable middle-segment market, which accounts for sales of between \$5,000-\$500,000. Finally, the rise of online auctioneers, such as Paddle8 (founded in 2011), may threaten the dominance of all tiers, being capable of both facilitating blue-chip art trading and tapping into the middle- and lower-end auction markets (The Economist, 2016).

Figure 2: Total Art Auction Sales for Sotheby’s, Christie’s and Phillips, in \$ billion (2007-2014)



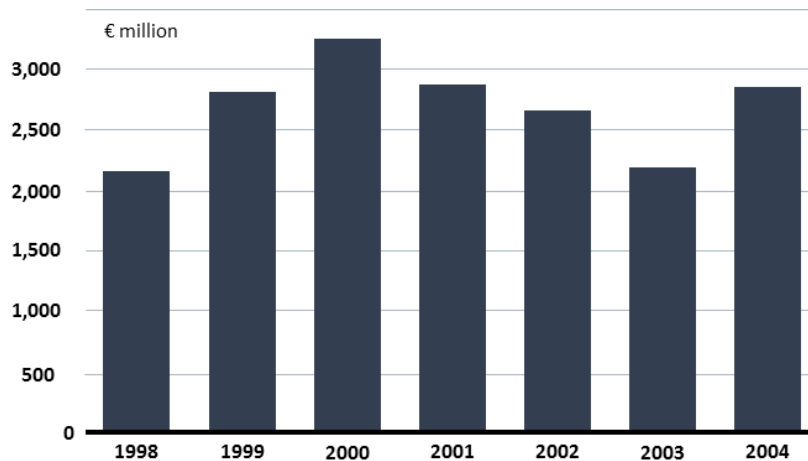
Source: The Economist (2016), based on company reports

4.2. The case of Phillips auctioneers within the LVMH Group (1999-2002)

The acquisition of Phillips by Bernard Arnault's LVMH Group was major news in the art world. At the end of 1999, LVMH paid \$96 million to acquire Phillips, one of the oldest British auction houses, which had been founded in 1796, and "has built up an international reputation with buyers and art press, acquired thanks to the high professionalism of its sales and valuation services" (LVMH, 2000:70). In its first year within the LVMH Group, Phillips "strengthened its management and built up its team of experts and recognized art specialists" (LVMH, 2000:70). The most striking move was its partnership in 2001 with two former Sotheby's executives, Simon de Pury and Daniella Luxembourg, who were operating as private dealers in Geneva specialising in Impressionism and modern art (Adam, 2014; Heath, 2012). Phillips had all the ingredients of a successful venture: a steady flow of capital sourced from the luxury giant LVMH, the transfer of knowledge from the luxury industry to the auction business and the experience of world-class dealers, such as de Pury and Luxembourg. The case of Phillips is controversial, as the financial press regard it as a major failure which resulted in significant losses – of around \$400 million – for LVMH that forced the luxury conglomerate to sell 72.5% of its stake to de Pury and Luxembourg in December 2001 (The Economist, 2002).

The late 1990s was a period of expansion for the auction market, which grew by more than 50% in terms of annual auction sales turnover between 1998 and 2000 (Figure 3). After a failed attempt to buy Sotheby's in the late 1990s, Arnault bought Phillips as a response to the acquisition of Christie's by his rival François Pinault, whose holding company Artemis had purchased a majority share of that auction house in 1998 (Scheep, 2001; The Economist, 2002). The acquisition of Phillips was seen by commentators as an attempt by Arnault to challenge the established auction market duopoly of Christie's and Sotheby's (Adam, 2014). At the time of the Sotheby's/Christie's price-fixing scandal (Ashenfelter & Graddy, 2005), Phillips made its entry to the high-end auction market promoting itself as 'Phillips: The other way to run auctions' (Underhill, 2001). However, the personal rivalry of Arnault with Pinault proved problematic for LVMH's involvement in the auction industry. Arnault's eagerness to out-compete Sotheby's and Christie's in a short period of time led Phillips's leadership to take disproportionate risks in terms of rapid expansion and auction guarantees, in order to attract media coverage, acquire presence in key art markets, and secure important consignments.

Figure 3: Annual Auction Sales Turnover (Fine Art, Global)



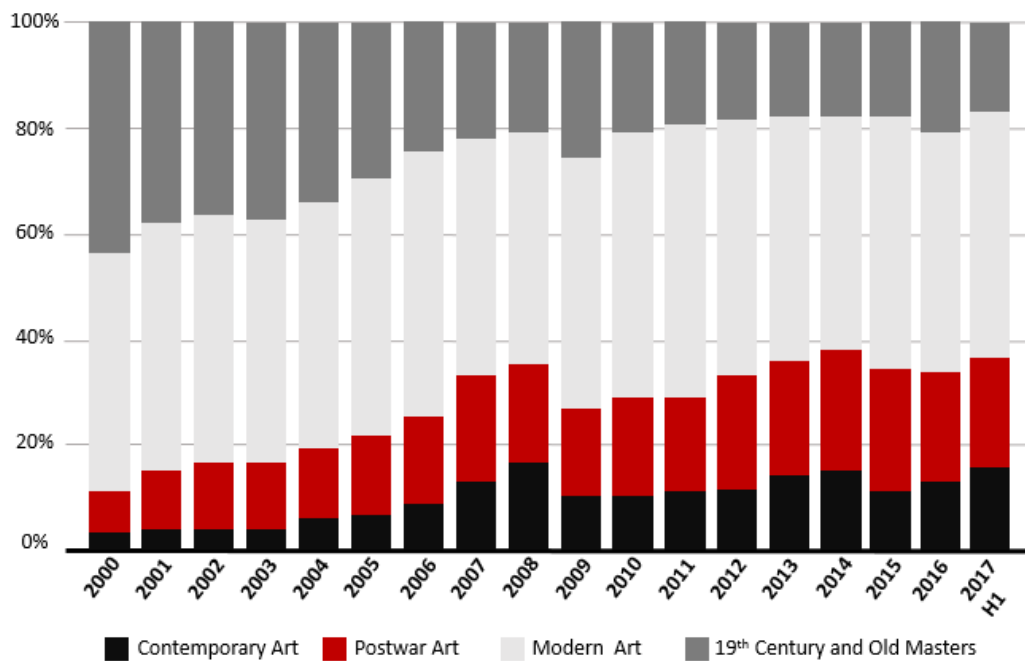
Source: ArtPrice (2005)

Arnault's involvement in the auction industry was part of LVMH's diversification strategy which involved investing in unrelated but prestigious businesses, and was intended to enhance its image as a global leader in the luxury industry (Donzé, 2018). LVMH stated in its annual report for 2000 that "our long term vision and goal are to penetrate the art world, a world close to our customers and our culture, establish a foothold and grow in this fast expanding sector while introducing a different approach, characterised by the superior quality that must underpin everything we do" (LVMH, 2000:13). Art world commentators pointed out that the CEO of Phillips, Christopher Thomson, wanted at that time to sell more 'six-figure paintings', having "no intention of challenging Sotheby's and Christie's directly until Arnault bought Phillips in November 1999. But the Frenchman's LVMH group has made a fortune from marketing scent, champagne and suitcases and Arnault believed that selling art would be no different" (Bennett, 2003, n.p.). The press criticised LVMH's expansion into the auction sector, highlighting the incompatibility of this sector with its core fashion business (de Pury, 2016). Art world commentators argued that "auction houses are not luxury goods", stressing that investors "never accepted" LVMH's involvement in the auction industry "as a smart strategy" (Sorkin & Vogel, 2002: n.p.). Critical voices from the business world pointed out that complementarities between the LVMH's core business and its investment in Phillips were not being explored. Sagra Maceira de Rosen, an analyst at J. P. Morgan in London, claimed that the investment of LVMH to Phillips "did not make any sense" as Phillips did not "make use of the company's distribution network" (in Sorkin & Vogel, 2002: n.p.).

In 2000, the firm organised 800 sales worldwide, strengthening "its position in Impressionist, Modern and Contemporary Art auctions during the New York spring and autumn sales"

(LVMH, 2000:70). In particular, the decision to focus on Impressionism and modern art was reasonable, as these were the largest and more profitable segments in the art market, often attracting media attention through the achievement of record bids, such as Paul Cézanne’s painting, *La côte du Galet, à Pontoise*, which was sold at Phillips for \$8,527,500 (Figure 4; LVMH, 2000). The Contemporary Art market also proved promising for Phillips, as Damien Hirst’s diptych *In and Out of Love* was sold for an individual record price of \$750,500 (LVMH, 2000). As it stated in its annual report in 2000, LVMH deliberately targeted these art markets, claiming that “the extensive media spin-off resulting from these sales has helped strengthen Phillips’ international image considerably” (LVMH, 2000:70).

Figure 4: The Global Art Market (2000-2017)



Source: Art Price (2017)

Being aligned with Arnault’s vision to compete in the high-end auction market, Phillips pursued an international business strategy which prioritised its presence in the art hub of New York. According to LVMH’s annual report (2000:61), “Phillips owns the premises used for its auction sales activities and the offices located on Bond Street and at Bayswater in London. Outside London, the sales rooms and UK-based offices are, either owned by the company (four of them), or rented (twenty-one). In addition, premises are rented in the different countries where the company is established. To boost its sales in New York, Phillips has rented a building on 57th Street and is currently renovating it.” This strategic change for Phillips required it to stage international scale auctions, especially in New York in May and November 2000, which

attracted “considerable media coverage”, and positioned “Phillips as a key player in its line of business” (LVMH, 2000:11). However, “the cost of these operations, as well as the recruitment of more personnel, weighed on the company’s results and led to significant losses” (LVMH, 2000:11), while also producing “exceptional costs linked to expanding the business and boosting the image of Phillips, i.e., EUR 57 million” (LVMH, 2000:81).

Phillips’s first sale in May 2000 was not as successful as it had anticipated. According to an art world reporter, “Phillips sold only 40 percent of the works on offer at its first New York auction of impressionist and modern art – despite the presence of Sharon Stone. To win customers from Sotheby’s and Christie’s, Phillips is believed to have guaranteed unrealistically high sale prices – a move analysts believe resulted in hefty losses on \$43.9 million in sales” (Underhill, 2001, n.p.). In January 2001, Phillips merged “with private art sales company de Pury & Luxembourg Art” and “the partners of this company, Daniella Luxembourg and Simon de Pury, received 25% of the capital of the new entity known as Phillips, de Pury & Luxembourg” (LVMH Group, 2000:17). Luxembourg (2014:123) explained this process of business development: “We focused our main efforts on building a new designated auction venue in New York and moved to a beautiful building at 3 West 57th Street, which had been renovated with the help of LVMH’s tastemaker Katel Le Bouhris. In London we moved from the old Phillips building at No.101 New Bond Street to Grosvenor Street, and in Geneva our old De Pury & Luxembourg offices on the Quai des Bergues were turned into auction offices. We also kept an office and salesroom in Zurich alongside maintaining our activities in the newly-appointed contemporary gallery of De Pury & Luxembourg at Kreuzstrasse 54.” Christopher Thomson, the CEO of Phillips, claimed that “a permanent address and presence in Midtown [New York] with distinctive visual qualities and characteristics” was an essential strategic move in order to create “an attractive venue from which to conduct sales and elegant facilities to meet clients” (Cuozzo, 2000: n.p.).

These actions repositioned Phillips, de Pury & Luxembourg as a boutique auction house that gave particular emphasis to design, with elegantly curated previews, exquisitely designed catalogues and the important consignments grouped together in thoughtfully designed sales. The auction house pioneered the establishment of design as an auction category: “in 2000 the term Design Art was coined by Alexander Payne, director of design at Phillips de Pury & Co., who observed that some designers experimented with materials and form to the extent that the boundaries between art and design were blurred. Payne sensed that these works opened up new

possibilities in terms of the market and, accordingly, Phillips de Pury retitled its New York sales of twentieth-century design ‘Design Art’” (Darby, 2016:74). More broadly, Phillips underwent a process of organisational transformation which required that the “business had to be built from scratch, including client lists, teams of researchers and experts, and the entire administrative operation” (Luxembourg, 2014:124). Although Phillips achieved its aim of becoming an innovative boutique auction house, holding major auctions in New York in May and November 2001, “the development costs of its international activity weighed on Phillips income from operations, which was sharply negative¹” (LVMH, 2001:18).

Financial guarantees were the main strategic method by which Phillips, de Pury & Luxembourg attempted to attract consigners within an auction market in which sellers have high bargaining power, as the cost of switching between auction houses is significantly low. This strategy did attract major consignments, such as the “high-calibre collection that belonged to Heinz Berggruen, an art dealer in Berlin” (The Economist, 2002). By providing a generous financial guarantee, Phillips managed to out-compete Sotheby’s and Christie’s, but in the end it failed to cover the guarantee (Heath, 2012; The Economist, 2002). Until 2001, Phillips, de Pury & Luxembourg had sold over \$500 million worth of art (Luxembourg, 2014). According to Adam (2002, n.p.), “Phillips, de Pury & Luxembourg has been overpaying, both to buy whole collections for sale at auction – such as the Berggruen and Smooke collections – and to woo senior specialists from Sotheby’s and Christie’s.” Luxembourg (2014:124) admits that “the guarantees we gave for the great collections were not always covered, but it was the only option we had when entering into that high-end market. It was also not a strategy we wanted to apply as a long-term vision. These sales brought to us many more collectors than we could have dreamed of, and we were able to compete alongside Sotheby’s and Christie’s on estates and collections such as Arturo Schwarz’s collection of Marcel Duchamp’s readymades.”

In November 2001, Phillips, de Pury & Luxembourg sold the Smooke collection of twentieth century art. According to Vogel (2001), “to wrest the Smooke collection away from Sotheby’s and Christie’s, the aggressive third-place auction house had offered the Smooke heirs a large guarantee – an undisclosed sum given to the sellers regardless of a sale’s outcome – believed to have been around \$185 million. Just before the sale, the Smooke heirs decided to keep works worth an estimated \$15 million, which came off the guarantee². But that meant Phillips still

¹ The exact size of the losses for 2001 is not specified in the Director’s Report (LVMH, 2001).

² According to Vogel (2001: n.p), “During the final negotiations, about \$15 million worth of the art – small but rare works by Matisse, Picasso, Ernst and Derain – were removed from the auction. When the auction catalogue

lost more than \$80 million – a price it was willing to pay to carve a niche in the market and take \$86 million from Sotheby’s and Christie’s bottom lines.” Although more than 93% of the lots were sold, this sale proved detrimental to the involvement of LVMH in Phillips.

Phillips failed to build a strong reputation in the high-end auction market, finding it very difficult to attract the same quality of consignments without an excessive use of guarantees. Simon de Pury claimed that the use of financial guarantees was the right way for Phillips to build market share (Economist, 2001). This type of organisational failure was not related to the accuracy of the firm’s calculation of risks, but to the deliberate decision of Phillips’s leadership to pursue a risky strategy in exchange for long-term returns (Luxembourg, 2014). The use of high financial guarantees was considered to be a controversial practice at the time. According to Edward Dolman, the Chief Executive of Christie’s, “high guarantees are an easy way to win business if you do not want to make a profit” (in The Economist, 2001); Robin Woodhead, the Chief Executive of Sotheby’s for Europe and Asia, also complained that financial guarantees “distort prices” (in The Economist, 2001). While Phillips was struggling to establish itself in the high-end market by using financial guarantees, Dolman was questioning whether “there is enough business at the top for the three”, given that only about fifty private collectors in the world buy art works costing \$20 million or more (Economist, 2001). For this reason, Christie’s and Sotheby’s realised that operating in the middle segment of the auction market could provide a ‘safety net’, especially in times of economic decline. As in 2001, Christie’s South Kensington saleroom, which specialised in the middle market, was an important revenue source for the company (Economist, 2001).

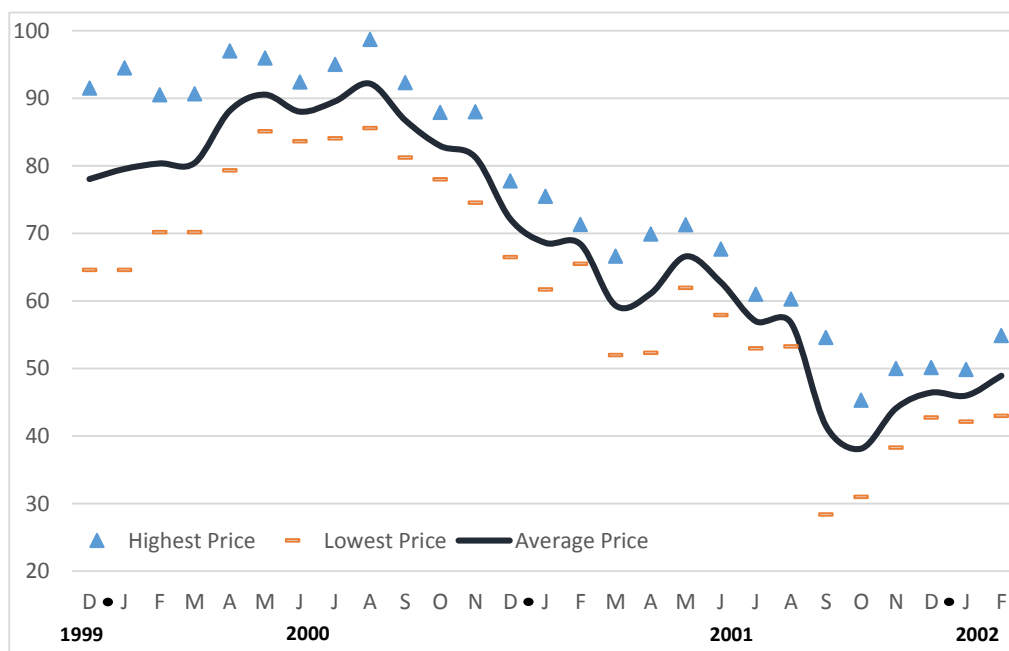
Interestingly, LVMH also invested in middle-segment auction houses, such as the British middle-market auction house Bonhams & Brooks (LVMH, 2000), and Etude Tajan, a ‘leading French fine arts auction house’ (LVMH, 1999). More specifically, “in November 2001, Phillips, de Pury and Luxembourg’s UK activities and the activities of Bonhams & Brooks merged within a joint entity, 49.9% of which was held by Phillips, de Pury and Luxembourg, thus maintaining its control of the firm’s international activities” (LVMH, 2001: 26). The expansion into the arts also included the development of “specialized magazines such as *Connaissance des Arts* and *Art & Auction*” (LVMH, 2000:70). According to Luxembourg

came out, rumours began circulating that most of this art had been bought by Bernard Arnault, the chairman of LVMH, for the museum he is building in Paris [the Louis Vuitton Foundation, which opened in 2014]. ‘It’s totally untrue’, Mr. de Pury said. ‘All the works from the collection that are not in the sale have been retained by the family’”.

(2014:121), “the aim was to turn Phillips into a high-end auction house and keep Bonhams as it was.” However, after de Pury and Luxembourg joined the company, “the British end of Phillips was sold to Bonhams because the new regime was uninterested in the middle market” (Bennett, 2003: n.p.). In contrast to Sotheby’s and Christie’s, which maintained and developed operations in the middle market, Phillips neither created nor explored synergies between Phillips, Bonhams and Etude Tajan, or at least not in an obvious way.

After the terrorist attack on the World Trade Centre on 9/11, the stocks of many companies in the luxury industry – among them LVMH – plummeted in value (Figure 5; Luxembourg, 2014). What enabled Pinault to survive this crisis and maintain his control of Christie’s was the governance structure of the company, as its funding was sourced through his private holding company Artemis and not through the publicly traded PPR [nowadays Kering] (de Pury, 2016:187). In contrast, “Bernard Arnault owned Phillips through the very publicly traded LVMH. Although the financial press wasn’t focusing on what Pinault was doing with Christie’s, there was a fair amount of print questioning whether it made sense for LVMH to invest so heavily in an area that was clearly not part of its core business” (de Pury, 2016:186). Finally, the fact that “LVMH had pulled out was a stigma, a scarlet letter that no company could expect to recover from, the ultimate vote of no confidence” (de Pury, 2016:187).

Figure 5: LVMH’s Share Price in Euros (December 1999 – February 2002)



Source: authors, based on LVMH (2000; 2001; 2002)

De Pury (2016:186) explained that on September 12, “Bernard decided that, in this suddenly upside-down world, the whole enterprise didn’t make any economic sense. He wanted out, with a capital O. Daniella and I were informed that LVMH wanted to immediately start negotiating their exit.” LVMH’s aggressive tactics to acquire market share from Sotheby’s and Christie’s proved risky and expensive, and significant losses led the Group to issue a profit warning in November 2001, as “Phillips was responsible for an estimated \$150m loss at LVMH” that year (The Economist, 2002). Arnault’s swift response was also influenced by the drop in the luxury-goods market due to “the economic recession both in the United States and Japan” and the downward trend of the Paris CAC 40 index” after August 2000 (LVMH, 2001:10). The severe shock caused by the 9/11 attacks affected the share price of LVMH which reached a historical low (Figure 5), forcing the Group to issue another profit warning – the fourth in six months (Adam, 2002; LVMH, 2001). Under these circumstances, Arnault could not “afford to continue being so indulgent” (Adam, 2002: n.p.).

Despite the huge risks taken by Phillips and LVMH, the auction house never really joined the high-end auction house league. In 2001 Phillips achieved only \$285.6 million of sales, in comparison to the \$1.63 billion of Sotheby’s and \$1.76 billion of Christie’s (ArtPrice, 2003). In December 2001, LVMH reduced its equity interest to 27.5%, transferring its controlling stake in Phillips to de Pury and Luxembourg (LVMH, 2002). This decision was “part of LVMH group’s strategy to focus on expanding its luxury brands” (LVMH, 2001:6). Luxembourg (2014:127) claims that after 2002 much of the auction industry adopted some of the conventions introduced by Phillips, such as the use of financial guarantees. Notably, “in the spring art auctions in 2007, Sotheby’s and Christie’s granted some of the largest guarantees ever, and this strategy proved successful in a booming art market. In the early 2000s, however, the art auction house Phillips was driven out of business and forced to reorganise, when it granted excessive guarantees to attract business and many of the paintings failed to sell” (Haruvy et al., 2008:442).

According to Luxembourg, (2014:127), Phillips introduced “beautifully designed catalogues, the interior design and the rest of the packaging of auctions as a norm. The dream of building a boutique auction house can still be achieved. Endurance and long-term commitment are essential to the game, in addition to knowledge of the market’s experts and leaders. But above all, the magic depends on the few key collectors and their truly great works of art”. However, more critical voices still raised concerns about Arnault’s aggressive tactics: “it emerged that

Phillips’s cash, rather than its expertise, had lured sellers of high-quality art; they returned to Christie’s and Sotheby’s. So far, Phillips has won no top consignment for the upcoming auctions this spring, despite the current strength of the art market” (The Economist, 2011).

Table 2: Key Events in the Case Study (December 1999 – January 2003)

Dec 1999	LVMH buys Phillips for \$96 million
Nov 2000	Impressionism and Modern Art Sale (NY) sells \$32.6m (Low Est: \$39.5m – High Est: \$54.1m)
Jan 2001	De Pury & Luxembourg join Phillips, which is restructured into a boutique auction house
Mar 2001	Collection Berggruen (Paris) is sold for \$71.2m; guarantees of over \$80m
May 2001	Impressionism and Modern Art (NY) sells \$124m (Low Est: \$170m – High Est: \$236m)
Jul 2001	LVMH acquires the middle-segment auction house Bonhams
Aug 2001	Phillips signs \$185m guarantees for Smooke Collection
Sep 2001	LVMH stock plummets as a result of 9/11 terrorist attacks
Nov 2001	Phillips pays \$80m in guarantees to Smooke family
Nov 2001	Contemporary Art sale fetches (NY) \$10.63m at Phillips, eclipsing high estimate
Dec 2001	LVMH sells 72.5% of Phillips share to de Pury & Luxembourg
Jan 2003	Phillips sells the remaining 27.5% to de Pury

Source: authors

Table 2 summarises the key findings and highlights of the case of Phillips within LVMH. In 2003 (n.p.), an Antiques Trade Gazette reporter described the situation at Phillips after the exit of LVMH in these terms: “speaking about his hopes for the future of the company, Mr de Pury said that the management buy-out heralded ‘an expert-driven strategy for growth’. But at the same time, he cut the Phillips workforce by a third, making 50 of 135 staff redundant’. Following another disastrous Impressionist and modern art sale, de Pury decided to omit these art market categories from the Phillips portfolio (Antiques Trade Gazette, 2003). In the following years, Phillips pursued a far more modest strategy, generally avoiding the use of guarantees; as Luxembourg explained: “The most important thing to do now [in 2004] is to establish that we are stable and that we can make it” (Business Report, 2004: n.p.).

5. An Analysis of Strategic Sensemaking and Failure at Phillips

Table 3 summarises the strategic sensemaking of Phillips within LVMH from 1999 to 2002. Our conceptual framework addresses scanning, interpreting, strategising, acting and adjusting as the five processes of strategic sensemaking, and uses them to analyse organisational failure at Phillips. Four key strategic decisions are identified in the case study and are analysed below using our conceptual framework: (1) Arnault's decision to enter the high-end auction market; (2) LVMH's series of investments in the art world; (3) the decision to target mainly the Impressionism and modern art categories of the art market; and (4) the extensive use of financial guarantees to acquire valuable collections and attract positive publicity. It should be noted that the five sensemaking processes at Phillips were not performed in a sequential way. The trigger for strategic and organisational action at Phillips was not the careful scanning and interpretation of information from the external environment, but Arnault's intuitive decision to enter the high-end auction market.

Arnault's decision to enter the high-end auction market. Arnault's decision to enter the auction market had a mainly emotional trigger: to out-compete his arch-rival Pinault and the duopoly of Sotheby's and Christie's that had previously dominated the auction market and at the time was experiencing turmoil, due to the exposure of a price-fixing scandal. Sensemaking is crucial as a way of explaining the role of perceptions, emotions, experience and behaviour of key individuals in affecting strategic and organisational configurations within art organisations. Although persistence and passion are virtues that inspire entrepreneurs to set challenging goals (Cardon et al., 2009), attitudes and behaviours, such as exaggerated pride, self-confidence, opportunism and arrogance, can also be perceived as audacious and hubristic, creating blind spots, biases and strong norms which can lead to organisational failure (Mellahi & Wilkinson, 2004). Arnault's insistence on competing directly with Sotheby's and Christie's led Phillips to set unrealistic goals – in terms of revenue – and pursue a risky strategy: Phillips as a high-end auction house had to attract high quality consignments and the only way to achieve this was by transforming the auction house in a short period of time and by offering excessive financial guarantees. Although there is nothing unusual in a firm taking high risks and anticipating high returns, the short period of time and the large scale of organisational change at Phillips did not allow its senior management to adjust its strategic and organisational configuration in time.

Table 3: Strategic Sensemaking of Phillips by LVMH (1999-2002)

	Arnault's decision to enter the high-end auction market	LVMH's series of investments in the art world	Targeting mainly the Impressionist & modern art market segment	Extensive use of guarantees & negative publicity
Scanning	Arnault entered the high-end auction market due to his rivalry with Pinault. The Economist (2002); Underhill (2001)	The art world was a meaningful market for LVMH to diversify into. Donzé (2018); LVMH (2000)	Impressionism & modern art market as the largest and profitable market segment. ArtPrice (2017); LVMH (2000)	Important collections and record sales attracted positive publicity. LVMH (2000; 2001)
Interpreting	Arnault considered it possible to out-compete Sotheby's and Christie's. Adam (2014); Underhill (2001)	The mid-market in the auction market had less priority for LVMH. Bennett (2003); Luxembourg (2014)	Targeted chiefly the Impressionism & modern art market. LVMH (2000); Heath (2012)	Offering guarantees was the only way to access the high-end market. Haruvy (2008); Luxembourg (2014)
Strategising	LVMH treated the action industry as similar to the luxury industry. Bennett (2003); LVMH (2000)	Created an innovative boutique auction house in New York. Cuozzo (2002); Luxembourg (2014)	Partnered with the established art dealers S. de Pury & D. Luxembourg. Adam (2014); Heath (2012)	Reputation and trust were based on attracting high-profile collections. Luxembourg (2014); LVMH (2000)
Acting	Arnault's strategy to target the high-end auction market was uncontested. Bennett (2003); Luxembourg (2014)	Deployed flexible structure, but concentrated activities in New York. LVMH (2000); Luxembourg (2014)	Invested in key personnel and business development to improve Phillips. LVMH (2000; 2001)	Financial guarantees were used extensively to acquire collections. The Economist (2001); Vogel (2001)
Adjusting	Arnault responded 'episodically' after 9/11 attacks and left Phillips. de Pury (2016)	Restructuring led by de Pury took place after LVMH decided to exit. Antiques Trade Gazette (2003)	De Pury decided to omit Impressionism & modern art categories after 2004. Business Report (2004)	Issued four share profit warnings which led to LVMH exit. Adam (2002); LVMH (2001)
Blind Spot	The gap between Phillips and the two high-end auction houses was too wide.	LVMH did not explore synergies between the auction houses it owned.	Phillips could not foresee the growth of contemporary art market after 2006.	Poor sales and high guarantees attracted negative publicity.

Source: authors

LVMH's series of investments in the art world. In 1999, LVMH presented its investment in the art world as being compatible with its core business; however, two years later, the Group reversed its position, deciding to focus again on the luxury industry. LVMH's decision was greeted with scepticism from the beginning: "Arnault believed that selling art would be no different" than selling luxury products (Bennett, 2003: n.p.). It is debatable whether the difference between the two industries was the reason for the failure of Phillips. The luxury industry can be considered to be similar to the high-end auction industry, as both trade in objects which are unique in terms of beauty and quality and exclusive in terms of price; both rely on sophisticated marketing campaigns and spatial aesthetics which fuel the myths surrounding the luxury shopping and auction experience (Adam, 2014; Kapferer, 2014). On the one hand, LVMH successfully explored the synergies between the two industries by transferring knowledge and expertise from the luxury sector in order to reposition Phillips as an innovative boutique auction house. On the other hand, LVMH was less successful in creating synergies between its investments in the art market, targeting the high-end auction market with Phillips and the middle market with Bonhams and Etude Tajan. While a marketing strategy of distinguishing between brands in order to appeal to different market segments makes sense in the luxury industry, this approach shows relatively low sensemaking of the auction industry, in terms of interpreting the importance of the middle segment of the market, as it provided a vital 'safety net' for Sotheby's and Christie's.

Targeting the Impressionism and modern art categories of the art market. The recruitment of Simon de Pury and Daniella Luxembourg equipped Phillips with the knowledge, connections and expertise required to become established within the Impressionism and modern art markets. However, key executives of Phillips admitted that there was no other way than paying large guarantees in order to acquire valuable collections for Impressionism and modern art sales (Luxembourg, 2014) and build market share (de Pury, 2016), while the high expenditure with which they established their presence in New York was the only way to compete in the high-end auction market (Thomson, in Cuzzo, 2000). Although the sensemaking of Phillips executives was relatively high, their actions were possibly influenced by Arnault's decision to compete in the high-end auction market. Phillips seemed to lack processes and norms which would permit those top executives who suggested targeting the middle-segment of the auction market to negotiate and influence the strategy of the auction house. In addition, adjustments, such as the reduction in the use of guarantees and the downsizing that took place after the exit

of LVMH from Phillips, demonstrate that LVMH's strategy for Phillips was unsustainable. Nevertheless, Phillips retreated from the Impressionism and modern art markets only after an additional failed sale in 2003, indicating the relatively low sensemaking of de Pury and Luxembourg in assessing the potential of Phillips in these art markets during and after the LVMH's years.

The extensive use of financial guarantees to acquire valuable collections and positive publicity. The aim of Phillips's strategy was to construct its legitimacy in the high-end auction industry mainly by using economic resources in the form of financial guarantees. Phillips failed to build reputation and trust in the high-end auction market, and found it very difficult to attract the same quality of consignments without the use of guarantees. Although LVMH showed high sensemaking in interpreting the importance of the publicity achieved through record sales, it was relatively negligent about the possibility of criticism from the media if it failed to sell these collections successfully. Specifically, the use of high guarantees created a downward spiral, forcing Phillips to set prices at high levels, and then attracting negative media coverage when these artworks failed to sell. This raised further concerns from commentators and stakeholders, who, from the beginning, had seen LVMH's investments in the art world as being unrelated to its core business. This suggests that economic resources can only provide a temporary advantage for an art organisation, unless they are used to build expertise and knowledge in order to gain legitimacy in the art market as a trusted and innovative vendor. In addition, the media interpretation of Phillips's strategy as unsuccessful or too risky also put pressure on the parent company, while the uncertainty and volatility encountered by the parent company, especially after 9/11, created further pressures for the auction house.

Overall, the fierce competition of Sotheby's and Christie's, and the high bargaining power of the consigners, forced Phillips to provide high financial guarantees which proved detrimental to it. The involvement of LVMH in Phillips was generally considered to be a strength for the auction house, as it provided abundant economic resources. However, the excessive use of financial guarantees, which resulted in significant losses for LVMH, were symptomatic of Arnault's insistence on entering the high-end auction market. The main cause of the failure was the inflexible strategic and organisational configuration created by his decision to build expertise in the most competitive segments of the art market, which reduced Phillips's strategic fit. Arnault's involvement in Phillips began and ended emotionally, as his initial overconfidence was replaced by frustration triggered by the falling share price of LVMH after 9/11, by the stakeholders' reactions and by the negative publicity.

6. Conclusion

By synthesising the literature of sensemaking and organisational failure, we have constructed a conceptual framework to analyse strategic decision-making under conditions of uncertainty. The concept of strategic sensemaking, which was originally based on the processes of scanning, interpreting and acting (Thomas et al., 1993), is extended here to include the processes of strategising and adjusting. While Thomas et al. (1993) claim that the processes of strategic sensemaking are sequential and rational, our analysis suggests that scanning, interpreting, strategising, acting and adjusting within uncertain environments, such as the art market, may take place in a non-linear and recursive way that supports continuous loops of improvement. It is particularly true of the art market that intuitive thinking is a suitable means of supporting the formulation of artistic strategies that aim to construct the legitimacy of art organisations on the basis of trust, originality and innovation; while the use of causal and effectual thinking may respectively ensure the commercial and organisational feasibility of the artistic strategy. This paper has examined a case in which strategic sensemaking was triggered mainly by intuitive thinking, exposing the merits of realising a novel artistic and entrepreneurial vision that established Phillips as a boutique auction house, but also the limitations of emotional and opportunistic decision-making which can lead to ‘blinded management’ if one or more of the processes of strategic sensemaking – scanning, interpreting, strategising, acting and adjusting – are ignored.

Our conceptual framework could assist art organisations to prevent failure in three ways. Firstly, art organisations have to master causal, effectual and intuitive types of thinking and to develop appropriate processes of sensemaking that detect opportunities and threats at the external environment, support the strategic configuration with appropriate organisational norms, resources, learning mechanisms and structures, and establish processes of adjustment to facilitate corrective actions when required. Secondly, our conceptual framework identifies knowledge, legitimacy and artistic innovation as the three components of strategising within the art market which can be used by art organisations to construct symbolic and economic value of art. Thirdly, our framework for strategic sensemaking introduces the process of adjustment which is of paramount importance for art organisations, not only by urging them to set key performance indicators which could assist the recognition of warning signals (Amankwah-Amoah, 2016; Caves, 2000), but also by influencing them to build capabilities that would allow

them to predict their future needs in terms of knowledge, skills and expertise, taking the organisational and strategic configuration as well as the external environment into account.

Art organisations can learn from the case of Phillips, which failed because it introduced rapid and extensive change without the incorporation of a process of adjustment. As a managerial implication we suggest that organisational change should keep pace with the process of adjustment to counterbalance the impact of impulsive, emotional and intuitive decisions on organisational performance. In addition, organisations operating within uncertain and rapidly changing environments are more likely to succeed when they experiment with more frequent and smaller changes, as long as they develop capabilities to measure or assess the impact of their actions and to conduct relevant adjustments. This could also explain why auction houses, such as Sotheby's, have invested in data analytics capabilities, in order to improve the sensemaking process of adjustment. Diverse sources of secondary data used in this research (e.g. Adam, 2014; Bennett, 2003; Scheep, 2001; Vogel, 2001) suggest that LVMH failed with Phillips because of Arnault's insistence on competing within the high-end auction market, following a top-down approach to goal-setting and strategic direction that constrained the strategic fit (Clark & Rowlinson, 2004). A limitation of this analysis, which could be addressed in future research by using interviews within an organisation, is whether high strategic sensemaking is likely to be supported by a culture of openness and tolerance, based on norms that encourage decentralised decision-making and collective cognition (Akinci & Sadler-Smith, 2018).

Finally, our conceptual framework is limited to the analysis of commercial organisations in the art market, such as art galleries or auction houses, and our empirical findings reflect the case and historical period investigated. In its current version, our conceptual framework could be applied to investigate other cases of failure in the auction industry, such as the unsuccessful merger of the online auction platforms Paddle8 and Auctionata in 2016 which resulted in the insolvency of the latter in 2017 (Buffenstein, 2017). Future research could focus on studying strategic sensemaking in art institutions such as museums, biennials or foundations, which aim for audience engagement and stakeholder support instead of art trading (Robertson, 2015), to determine what constitutes an organisational failure for them. In addition, our conceptual framework in this paper is applied, to consider the organisation as a unit of analysis. By taking the perspective of agency theory (Eisenhardt, 1989), future studies could scrutinise the motives and intentions of individuals in organisations in terms of influencing the five processes of

strategic sensemaking. Finally, the lack of external validity in this research is compensated for by the analytical generalisation of our conceptual framework, which could be achieved in future research by modifying the elements of a strategic configuration – knowledge, legitimacy, artistic innovation – within a different institutional context (i.e. fashion, or the music industry).

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