

The Genesis of Organisational Ignorance in Knowledge-Intensive Firms

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Abstract

This research paper investigates the potential causes of organisational ignorance in knowledge-intensive firms, focusing in particular on the Arthur Andersen case. Although it is recognised in the existing literature that even expert organisations can be subjects to erroneous judgments, the complex interplay between cognitive biases and motivational deficiencies is frequently disregarded. This study aims to investigate the impact of these elements on organisational ignorance, thereby deepening our comprehension of decision-making process in expert settings. Using an infamous case study of Arthur Andersen, the study seeks to analyse ignorance at individual, collective, and organisational levels by employing qualitative data, cognitive theories, and organisational behaviour frameworks. The analysis suggests that in knowledge-intensive settings, ignorance may stem from an intentional choice to disregard important information, often influenced by a third party. This study, therefore, highlights the significance of enhancing knowledge management practices and decision-making processes in order to alleviate the adverse consequences of organisational ignorance.

Keywords: organisational ignorance, knowledge management, organisational psychology, Arthur Andersen, decision-making process

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Introduction

Knowledge has always been a foundation of human development, influencing how societies change and respond to difficulties (Hauser and Spelke, 2004). In today's world, knowledge has a particularly

significant function in the corporate world. Regarding its vital importance, the dissemination of knowledge was strategically integrated into every day corporate life and thus giving rise to 'knowledge-intensive' firms. Although, defining knowledge in a managerial sense is quite an arduous task since it must be reflected 'as an operational concept adequate for a business environment and not as an abstract one for a transcendental world of ideas' (Bolisani and Bratianu, 2018, p. 7). Nevertheless, drawing from an analogical description of labour-intensive and capital-intensive firms, a knowledge-intensive firm (KIF) may be described as the one where knowledge carries much more significance than other inputs (Starbuck, 1992). In opposition to the input perspective, Alvesson (2004) postulates that "KIFs can be loosely and preliminary defined as organizations that offer to the market the use of fairly sophisticated knowledge or knowledge-based products" (p. 17), therefore, including knowledge not just as the *input* but also the *output*.

Unfortunately, even though knowledge-intensive firms put the dissemination of information on the top of the pedestal, they are not, however, immune to so called 'stupid' or 'ignorant' decisions. Ignorance could be portrayed as opposition of knowledge (Stel, 2019) or simply not-knowing. However, to my understanding, the key element of deliberation is missing here since every company is usually aware of the decisions they are producing and what information they choose to omit from those decisions.

As these companies manoeuvre through an ever-growing sea of information, it becomes imperative to investigate the source of ignorance within their own organisations. This paper explores the fundamental elements of this intricate problem by attempting to clarify the nuances regarding the origins of ignorant behaviour in settings that require a high degree of knowledge. Through the analysis of the interactions between cognitive processes, organisational dynamics, and human behaviours, this research seeks to illuminate the elements that lead to ignorance within these structures. By doing this, I will address issues that go beyond what appears to be apparent and probe organisational behaviour, knowledge management, as well as complex relationship between ignorance and stupidity. Stupidity, in this context, refers to an organisational illness (Spicer *et al.*, 2009) which occurs when seemingly intelligent people in the organisation pretend to be ignorant due to disturbance, complexity, and contradictory experiences (Paulsen, 2017). Despite its negative connotation, Alvesson and Spicer (2012) propose a constructive interpretation of stupidity that benefits firms by promoting and supporting it in the workplace. Functional stupidity is referred as 'unwillingness to use cognitive and reflective capacities in anything other than narrow and circumspect ways.' In relation to the limited scope of the academic work, this research paper will primarily focus on the knowledge-intensive firms operating in accounting and auditing - an immense, affluent and power-exercising domain. As per the significance of the chosen topic, it contains not just academic but also practical implications.

Knowledge-intensive firms are usually described as 'know-it-all' organisations (Starbuck, 1992) which are forward thinking innovation hubs and virtually never engage in ignorant or stupid acts. Despite the omnipresence of this type of organisations, the notion of ignorance is under-researched in the aforementioned setting. It is therefore feasible to debunk circulating myths regarding this

trusted and praised economy. Essentially, ignorance and stupidity are easily evident, also, from the practical standpoint. In the recent years, many prestigious and reputable companies were involved into scandals regarding their auditing decisions. Some of these ideas were harmful to the firms, leading to lawsuits as well as liquidation. As a result of these detrimental errors in judgement, a strong negative impact is made on areas such as the economy and the society at large (Dorniok, 2012). Thus, it becomes vital to deepen our understanding of the origins of ignorant behaviour which consequently could be in aid of spotting and eradicating this comportment from firms' daily routines.

The paper will start with a literature review addressing knowledge management and the notions of stupidity and ignorance in organisational behaviour, highlighting deficiencies in current research. The subsequent section will delineate the research methodology, encompassing design, philosophical implications, data collection, analysis techniques, ethical issues, and limitations. The findings will elucidate trends and patters associated with ignorant behaviour in knowledge-intensive organisations. The discussion part will analyse findings in relation to research question, juxtapose them with current literature, and examine the impact on the organisation. Key contributions will be outlined in the conclusions section, along with suggestions for future research.

The Concept of Ignorance

As established previously, regardless of the amount of information collected, created and disseminated, knowledge-intensive firms from time to time are bound to decisions that do not fall under the definition of intelligence which according to Castrogiovanni *et al.* (2016) could be seen as the capacity to acquire and apply knowledge. A phenomenon that is firmly ingrained in KIFs is organisational ignorance which is more than just lack of knowledge; rather, it is the result of an intricate interaction of structural, cognitive, as well as cultural elements that make it challenging for information to be created, used and shared effectively. As a field of study, ignorance has already been discussed in many academic areas (Schwarzkopf, 2020). According to Inan (2019), ignorance could be viewed as something opposite to knowledge, as the management literature has already demonstrated, with awareness and deliberate action serving as the sole unifying factors. Among these dynamic organisations, ignorance can take many forms, from inadvertent oversight of crucial information to the wilful disregard of vital knowledge. From this angle, as one would observe, it is plausible to conclude that awareness promotes knowledge in the organisation, while ignorance is a result of a failure to consider awareness while engaging in decision-making process. Considering this view of awareness, we could divide the notion even further, extracting perception and attention as two variables that make up awareness of actions made.

Errors in Perception and Attention

In terms of the first notion, perception might be seen as a process of receiving information about and making sense of the world around us (Friedenberg, 2010). For this reason, I delve into cognitive research to understand the motivation behind decision-makers overlooking important information in relation to various cognitive flaws and biases.

Behavioural psychology research has widely demonstrated how cognitive biases influence human behaviour, leading to less rational behaviour than expected (Pinto, 2019). Generally, human cognitive capacities have evolved to employ various heuristics and biases in order to make the best decisions possible when faced with environmental demands. As it can be observed, people can quite efficiently engage in decision-making; therefore, these mechanisms appear to function well most of the time. However, Lilienfeld *et al.* (2009) state that these mechanisms are easily misapplied, which then can lead to erroneous and occasionally stupid decisions. An illustration of this is confirmation bias, which is seen as the propensity to look for evidence to support our beliefs while discounting or reinterpreting evidence to the contrary of our beliefs system (Peters, 2022). This type of bias might seem harmless on a daily basis when, for example, meeting someone new; however, in the knowledge-intensive environment confirmation bias might be the cause of impeded decision-making process. Another omnipresent bias, the halo effect, which Wells (1907) first proposed as the halo error, is defined as a cognitive process in which an individual's response to other attributes can be influenced by their overall assessment, or where the impression of one attribute might shape the impression of another independent attribute (Zha *et al.*, 2012). This general impression, or halo, fills in missing information at the time when concrete information is missing, or perceiver lacks motivation to search for it. Halo effect is usually applied in fields such as psychology or marketing; however, I believe that this account is much relevant in knowledge-intensive environment as well since aforementioned impediments play a pivotal role in settings which prioritise knowledge over any other input.

However, to perceive something, individual first must be attentive towards it. Attention is a highly covered field in literature and according to Lipnowski *et al.* (2019), decisions may become erroneous and some information might be overlooked due to attention deficit. As human beings, we experience serious difficulty in perceiving objects, events, or information to which we are not paying enough attention (Mack, 2003). Inattention blindness can have serious consequences, especially in knowledge-intensive settings where every decision made can have an effect on organisation as a whole. In a series of experiments, Wolfe (1999), however, questions the aforementioned account whether the types of failures regarded are actual evidence of unobserved stimulus, or whether the stimulus was, in fact, perceived but immediately forgotten. To put in a different way, does inattention blindness describe the notion better than inattention amnesia? In this regard, I claim that information could reach into memory better when a level of attention is present; therefore, it could be stated that higher levels of attention may help to overcome inattention amnesia in return making the decisions more informed and rational.

Additionally, to engage in goal-directed behaviour, which is widely taking place not just in knowledge-intensive environments but also in organisations where knowledge is only one of the inputs, one must ignore unimportant distractions and concentrate on goal-relevant stimuli (Lavie *et al.*, 2004). It is, therefore, the result of selective attention which has extensive neurological and psychological ramifications and entails differential processing of the inputs (Dayan *et al.*, 2000). According to Murphy *et al.* (2016, p. 1316) selective attention could be regarded as ‘the ability to focus on that which is important to the task at hand while ignoring or suppressing task-irrelevant information’. One of the most prominent theories of attention is perceptual load theory which involves two main mechanisms of selective attention. First, in circumstances of high perceptual load, a perceptual selection mechanism enables the exclusion of irrelevant distractor inputs from perception. This could be viewed as a relatively passive system that prevents irrelevant distractor interference by simply not allowing the distractors to be detected when processing capacity is insufficient. On the other hand, when there is little perceptual load, the second attentional control mechanism – which is more active than the first one – is required to reject insignificant distractions even when they are perceived. Higher order cognitive processes, including working memory, are necessary for actively preserving the priorities of the current processing in order to prevent low-priority stimuli from taking control of behaviour. As a result, excessive load on these cognitive functions should reduce the capacity available for active control and lead to an increase in processing of irrelevant distractions in relation impairing proper cognitive functioning which then may lead to ignorant behaviour. This is a relevant problem in KIFs considering long hours, huge workloads, and many distractions when working in the office, all of which makes it more difficult to engage in attention shifting leading to a higher chance of careless mistakes.

Passive Ignorance

Consequently, all these flaws in terms of awareness, lends the theory of bounded rationality which states that people make decisions with the intention of being rational but they occasionally fail to consider all the necessary aspects due to cognitive and emotional architecture as well as limited or unreliable resources (Jones, 1999). To define the concept of rationality is an onerous task since one-size-fits-all definition is simply not feasible (Kacelnik, 2006). Psychology, however, puts an emphasis on the process by which decisions are made, i.e., contrasting rational information with beliefs stemming from emotion, faith, authority or arbitrary choice. As human beings, we cannot always be fully rational; therefore, we tend to opt for the ‘satisficing’ decisions which are satisfactory and sufficient enough to simply ‘do the trick’. In the workplace this can be seen through the lens of decision-making process which was not intended to be ignorant, although it was, regarding employees being attentive and perceptive while making those decisions. Additionally, a theory of wilful ignorance, which according to Vu *et al.* (2023) is defined as intentionally and passively avoiding information regarding the unfavourable effects in order to maximise one’s own outcomes, explains the notion of awareness. However, this definition lacks to include actions to which a person was not aware and, consequently, does not perceive the fact of unawareness. As a result, Israilidis *et al.* (2013, p. 75) promotes a dual-axis (knowledge and ignorance) and four

paradigms theory – “I know that I know (high level of knowledge and low level of ignorance), I don’t know that I know (high level of knowledge and ignorance), I know that I don’t know (low level of knowledge and ignorance) and I don’t know that I don’t know (low level of knowledge and high level of ignorance)” - which describes one’s perception of ignorance. Thus, it is assumed that employees who exhibit greater degrees of ignorance would be perceived as being uninformed, whereas employees who show lower levels of ignorance might be characterised as more competent and productive.

Psychological Needs and Remuneration

Silva and Siscoe (2023), however, contend that, to the extent that the arguments are tenable, these explanations are insufficient for elucidating the essential truths regarding the relationship between ignorance and knowledge since, as argued previously, deliberate action is required for ignorance to be empowered. In relation to the answer, a fundamental question arises – why, regardless of present awareness of cognitive shortcomings, individuals in knowledge-intensive settings still engage in behaviour which clearly is the outcome of impeded nature of decision-making process?

One of the possible solutions regards the lack of motivation to fully immerse in overcoming the aforementioned cognitive flaws. According to Osemeke and Adegboyega (2017) motivation could be viewed as a process that originates from a physiological or psychological need or deficit that stimulates behaviour or drive towards an objective or reward. As a result, lack of motivation occurs when individuals exert unwillingness to put effort in achieving objectives and needs or do not have them clearly defined. Consequently, the result of unmet needs is omnipresent in the organisational environment which could explain the impeded process of decision-making.

Looking from a remuneration perspective and, as basic economics tells us, exchanges are very important in the economy. As previously noted, by offering our labour to the organisation, we are remunerated through monetary means; therefore, lack of motivation at work could be a direct result of the lack of proper compensation. The notion of remuneration inequality is described by equity theory of motivation and could be viewed as pivotal regarding reward-to-effort ratios in relation to other members of organisation. As Lawler (1968) states, the equity theory emphasises that the existence of inequality will spur people to work towards equity or to lessen inequality. In continuation, the perceived degree of the imbalance between inputs and outcomes will directly affect how motivated people are to lessen the inequality. In the context to knowledge-intensive firms, companies usually remunerate employees really well; however, the pay gap between the workers with undergraduate, MBA and PhD degrees varies tremendously (O’Dwyer, 2022). As far as it seems acceptable that people with different level of education would be compensated differently, the teams in knowledge-intensive firms are usually made up with people from various backgrounds and with diverse skill sets; therefore, it is very likely that, for example, an individual with solely undergraduate degree, working in a team with a senior employee with a higher level of education, will earn much less than the latter one for the same, if not more, amount of work. Thus,

if aforementioned remuneration inequality is perceived in the organisation, it is likely that loyalty and motivation will decrease while absenteeism increase (Chiang Vega *et al.*, 2020). As a result, the propensity to engage in more critical thinking may be affected giving rise to ignorant behaviour.

Active Ignorance

The act of actively and deliberately choosing to remain ignorant by not seeking out or properly utilising knowledge (or information) is known as deliberate ignorance (Herwig and Engel, 2016). Given the aforementioned, we can postulate that organisational ignorance reflects rational ignorance which forces individuals to make decisions on less vital information (Prentice, 2003). Consequently, decision-makers voluntarily 'satisfice' as opposed to trying to maximise the outcomes of their decisions. This process works against rational model of decision-making, leaving a gap for ignorance to arise.

The concept of Stupidity and Cognitive Dissonance

Organisational ignorance, therefore, poses a question – are those actions that individuals make are of complex cognitive nature or could be simply referred as stupid? The theory of functional stupidity seems to satisfy all the requirements for organisational ignorance to arise, though, the authors argue that addition to already existing knowledge from different professionals and academic institutions could be in aid of stopping it. As it appears, more formal education would contribute to the eradication of negative outcomes from organisations, yet this could not be further from the reality. The logical sequence of ignorance states that *I am ignorant; therefore, I am stupid, not other way around*. This particular contradiction and oversimplified interpretation on the issue would suggest that neither the theory of functional stupidity nor any other type of stupidity would help in answering the research question. Additionally, it could be stated that stupidity would be more appropriate as a consequence of ignorance, giving even more justification to omit it.

If an individual holds two incongruent beliefs, they will likely feel the pressure of an uncomfortable motivational state (Bem, 1967). They will attempt to alleviate this pressure in a variety of ways, including but not limited to changing one of the two 'dissonant' beliefs. This claim forms the basis of Festinger's (1957) theory of cognitive dissonance, which has drawn more attention than any other assertion concerning modern human behaviour. When adapted to collective environment, Seeme *et al.* (2019) propose a notion of pluralistic ignorance (PI) which occurs when most members of a group express views that are not consistent with their actual beliefs. As a result, we can state that both of the theories contribute to the likelihood of ignorance to arise.

Research Design

The main purpose of this research paper is to identify the root causes of organisational ignorance in knowledge-intensive firms. The choice to select companies which praise knowledge over any other input was primarily driven by their specific methodologies applied, which would suggest, that

taking into consideration the volumes of data collected, created and disseminated on the daily basis, these organisations would be more careful when taking important decisions. In addition, according to Roberts (2013) there has been a recent focus on wisdom, forgetting, and unlearning, but organisational ignorance has not yet received much systematic consideration. Also, despite the fact that ignorance is a fundamental component of social organisations (Moore and Tumin, 1949), management researchers have shown little interest in it. The study of organisational decision-making in the absence of complete knowledge in behavioural science (Hodgkinson and Starbuck, 2008) and the assessment of risk and uncertainty in domains like project management (Loch *et al.*, 2006) both touch on indirect considerations of ignorance. Furthermore, pluralistic ignorance has been studied only in organisational contexts, such as corporate boards. There has also been thought on the ignorance and small enterprises (Jones and Hecker, 2003). As one would observe, the research on organisational ignorance in the knowledge-intensive domain is virtually non-existent simply because researchers only address the issues of how to eradicate it through improved knowledge management techniques (Roberts, 2003). For this reason, it is crucial to investigate ignorance in knowledge-intensive environment.

As one would observe, this research paper will be looking into the issue of organisational ignorance and will try to better comprehend the origins of the phenomenon in knowledge-intensive settings. As such, it will be an exploratory study which according to Saunders *et al.* (2023) possess an advantage to be flexible and adaptable to change. This coalesces with the interpretivism philosophy and will help to address the research question. The philosophy of interpretivism is employed primarily to create new and rich understanding of organisational ignorance which consequently may be incorporated in practical settings.

In terms of research methodology, an inductive research approach will be applied since gathering data beforehand and only then deriving any conclusions from it is essential for this particular research paper regarding the degree of complexity present. At the very least, a qualitative method can help us gain a deeper understanding of the topic and produce novel insights and persuasive causes that can be turned into action plans that go much beyond mere descriptions (Skinner *et al.*, 2000). For this research paper solely, the secondary data will be used and, consequently, case study analysis employed which will essentially help to make conclusions later on as well as highlight the importance to study organisational ignorance in knowledge-intensive settings. Materials were chosen based on their relevance in terms of organisational psychology perspective rather than financial dimension which is usually employed when discussing KIFs. The paper will be based on a critical evaluation of a particular organisation working in knowledge-intensive environment and will try to illuminate the 'extreme' example of ignorant behaviour.

For this reason, we will analyse a well-known auditing firm Arthur Andersen, formerly one of the 'Big Five' auditing companies in the world and its association in Enron Scandal. In the context of knowledge-intensive environment, Arthur Andersen was chosen primarily for its strong involvement in organisational ignorance which consequently led company to a plethora of lawsuits

and, eventually, bankruptcy. In relation to theoretical sampling, this case was chosen primarily regarding organisation's position as a KIF which, as already mentioned, takes knowledge as primary input and output vis-à-vis their services. Additionally, the choice to analyse this particular case contributes to pragmatic approach - the organisation is well known and there will not be any access-related issues; therefore, no obvious ethical implications need to be explored further. As mentioned previously, organisational ignorance in knowledge-intensive settings is a quite under-researched issue; therefore, choosing Arthur Andersen as a main case is valid. Following the methodological approach, we will be engaging in discourse analysis which according to Alvesson and Kärreman (2000) could be referred as language which brings particular point of view into reality. As said, discourse analysis uses language that is constructive rather than simply reflective; therefore, we will be delving into a 'bigger picture' of ignorant behaviour in Arthur Andersen, analysing underlying cognitive implications through the actions taken while working with Enron. The case itself will be taken from various sources, including but not limited to Harvard Business School and other scholar writings.

The Case of Arthur Andersen

Before delving into the case, however, it is essential to understand the prevalent landscape of accounting practices. As Hawkins and Cohen (2006) state, one key element in the global expansion of the financial markets is undoubtedly the independent audit. The profession of public accounting has been instrumental in improving the financial reporting process that underpins the efficient operation of capital markets. Consequently, this has been made possible by the profession's independent audit function. The main objective of the audit is to confirm that generally accepted accounting standards were followed in the preparation of the financial statements. Since investors and shareholders widely rely on audited accounts, there cannot be any information left that does not reflect the reality. This was not, however, the case for Enron Corporation, an innovative US energy company (Constable, 2021). Regardless of a market capitalisation of over \$60 billion, Enron was deliberately hiding understated debt and greatly exaggerated profits (Meagher, 2023). Consequently, the company used a variety of accounting techniques to conceal those losses. Primarily Enron created off-balance-sheet entities to remove weighty liabilities from its balance sheet in order to make the company appear more lucrative than it actually was (Buresh, 2023). Enron was determined to increase its earnings each quarter, thus an increasing number of off-balance-sheet entities had to be established in order to create the appearance that the business was doing well (Forbes, 2002). Mark-to-market accounting was used to treat projected future earnings as though they had already existed. As a result, Enron could have reported impressive gains that eventually could have turned into losses which in relation made organisation's financial stability to be subordinated to raising the company's stock price (Hendrickson, 2014). Following the public's discovery of Enron's abnormal accounting practices in 2001, the company filed for Chapter 11 bankruptcy protection, resulting in \$11 billion in losses for shareholders, at the time making it the largest bankruptcy filing in history (Hawkins and Cohen, 2006). As later discovered, Enron Corporation was a major client for Arthur Andersen meaning that the accounting giant audited all

the financial statements provided by Enron ensuring a 'true and fair' representation of accounts. Due to the fact that Arthur Andersen released 'clean' judgements on the financial statements in relation failing to follow accord with 'generally accepted accounting principles (GAAP)' (Hawkins and Cohen, 2006, p. 1) drew the company into investigation.

As Andersen deemed Enron as a 'maximum risk' client, concerns regarding energy giant's statements were not something new. To examine and render decisions on dubious and complicated accounting cases, Anderson established the Professional Standards Group, composed entirely of an internal team of accounting professionals and senior partners. One of the key members of the group was Carl E. Bass who, in the 1999 e-mail, revealed a dispute over Enron's accounting that, had the advice been followed, would have cost Enron around \$40 million in lost revenue. During the following few months, Bass persisted in objecting to other accounting transactions which Andersen practice director kept overruling. Concerned about Enron's aggressive accounting, Anderson partners vigorously argued whether to continue representing Enron as a client. For this reason, the CEO of Arthur Andersen met with the Enron team where, per Enron's request, Bass was relieved of his supervisory position. After the Enron scandal surfaced, Arthur Andersen was also accused of obstructing justice by an organised attempt to delete records. According to the reports, Anderson gave orders to its offices in Portland, Oregon; Chicago, Illinois; and London, England, to participate in the destruction of fraud-related documents and, as a result, stall the inquiry. After realisation that it will not be possible to ameliorate the situation, the CEO of Andersen resigned, and the accounting giant was convicted for document shredding related to the Enron's case. Since, from a legal perspective, the Securities and Exchange Commission (SEC) could not assent corporate financial statements audited by a convicted felon, Andersen's offices all around the globe either amalgamated into other Big Five accounting firms or discreetly went out of business (Radigan, 2002).

Ignorance in Arthur Andersen

As one would observe, two major situations in the case illuminate ignorant behaviour in Arthur Andersen: a) dismissing concerns about Enron's accounting and ultimately removing Bass from his supervisory role; and b) document shredding in hopes of destroying the evidence of fraud. One may argue, that instead of ignorance the focus should be on incompetent behaviour. As much as it sounds credible, Arthur Andersen was aware of errors in accounting practices; therefore, ignorance becomes a more likely phenomenon than incompetence. The aforementioned situations on ignorant behaviour involve multiple actors which I believe could be categorised into three levels: individual, collective, as well as organisational one. When discussing the individual level, it should be clarified that the main focus is on accountants working on Enron account, and not employees on a broader regard. Collective level could be separated further into two distinct while at the same time intertwined groups: a) the top management of Andersen and Enron; as well as b) Andersen team working on Enron's account. Regardless of the fact that the case takes into consideration a major part of Enron's scandal. The main point of interest, however, is Arthur Andersen; therefore,

the organisational level is based on the latter account. To distinguish collective and organisational levels, it is important to mention that the collective one takes into consideration the team working in Arthur Andersen and Enron while organisational level solely regards Arthur Andersen as a whole company comprised by many teams of employees.

This particular case uncovers many cognitive biases and heuristics that were present in the decision-making process. To understand the complete overview of the situation, I delve into these cognitive impediments in relation to three aforementioned levels. As said, this is an appropriate strategy to analyse the findings since this type of evaluation is prevalent in management studies as well as found in similar type of analysis of business situations.

First, and perhaps foremost, I discuss Carl E. Bass and the circumstances surrounding overruling and relieving of duty in relation to three levels. Assessing if the actions were the result of deliberate misconduct or ignorance involves analysing the context of decision-making and critically evaluating information. Taking into consideration that Arthur Andersen had a history of prioritising rigorous, honest, and accurate accounting practices, the situation of willingly overseeing mistakes in Enron's accounts could be regarded as more than ignorant. Thus, it becomes evident that Andersen had the institutional experience and technological expertise to recognise and address such problems. Rather, their deliberate compliance with client requests, motivated by a desire to maintain their profitable relationship with Enron, appears to be more consistent with their failure to act responsibly. Furthermore, since Enron was the largest client for Arthur Andersen which was paying nearly \$100 million per year in fees solely for auditing (Prentice, 2013), alongside management consulting services provided by Andersen Consulting, a separate legal enterprise formed by splitting accounting and consulting services. As it can be seen, Enron was not solely an important client - rather, it was one of unparalleled significance. As a result, the energy giant was able to set the 'game rules' that Arthur Andersen had to follow.

Ignorance on Individual, Collective and Organisational Levels

Further analysis reveals that on the individual level self-serving bias was at play. Given that people typically act in their own best interests, it is obvious why accounting judgements were frequently overruled. Since the detected error in Enron's financial statements would have resulted in substantial losses, the energy behemoth was highly inclined to halt the issue's progression. Because Andersen's interest, or in this case, the practice director's self-interest, aligned with that of Enron, Andersen's practice director overruled Bass.

Apart from self-serving bias, overconfidence effect was strongly ingrained in Arthur Andersen's operations. This, from my point of view, is not an isolated case since many organisations working in knowledge-intensive settings believe they are, or have employed, the best and the brightest employees which in relation makes them overestimate their true abilities. As a consequence, overconfidence effect, in this case, tricked the brain of employees on the individual level into believing that taking risky decisions will help them to stay on top of the market. Overconfidence

effect in Arthur Andersen led to detrimental error in judgement which in return gave the appearance of ignorance to the actions.

Going forward, a strong level of cognitive dissonance was present in both individual and collective levels. According to Prentice (2003), Enron claimed itself to be the best company in the world. Because such opinions were strongly held and often expressed, it became challenging for Enron employees to grasp the conflicting information; therefore, they simply accepted it. As mentioned previously, for cognitive dissonance to become insignificant in the decision-making process, either the beliefs or actions must be altered to become congruent with prevalent beliefs in the environment. In terms of the individual level, Bass was the first one to experience cognitive dissonance which was evident from his effort to spot and report false statements in Enron accounts. His persistence to report the incongruencies, therefore, shows his willingness to change action in relation to eradicating cognitive dissonance. Regardless of his failure, Bass could be regarded as the 'saviour' of the organisation, rejecting the prevalent interests of the firm. On the collective level, however, cognitive dissonance was perceived when Arthur Andersen contemplated if Enron should still remain a client. It is evident, that Andersen was doubtful if Enron's extreme accounting practices could be viewed as congruent with the group's or, for that matter, organisation's beliefs. After meeting with Enron, Andersen's group changed their beliefs rather than actions, claiming that there are no incongruent beliefs with the client. Enron, as can be seen, was manipulating or forcing Andersen to believe in matter that was clearly inconsistent with auditing giant's code of conduct.

Building upon previous analysis, it is not surprising that both companies engaged in groupthink which was evident on the collective level. This cognitive fallacy assured Andersen that joint decisions are correct since the company was not the only one taking them. This created a cognitive comfort zone which helped to avoid unsettling situations and, in relation, gave the decisions an air of reason. Groupthink between Enron and Arthur Andersen made a team highly cohesive; however, the decision-making without critical evaluation of the consequences, in this case, was quite hierarchical meaning that Enron was setting the rules, while Andersen was solely following orders. In this regard, when groupthink becomes hierarchical, forced compliance behaviour is illuminated as well. This indicates that, with reference to the implied assumption that 'the client is always right,' Enron was effectively pressuring Andersen to adopt the desired behaviour. As a result, when both companies came together, chaotic culture came into existence which eventually led both companies to make poor decisions.

Following the notion of chaotic culture and overconfidence effect, 'no bad news' policy should be mentioned. Since Enron, same as Arthur Andersen, believed in the excellence of their employees, no bad news could have been reported to the top management, or, if reported they were completely dismissed on the assumption that one error might start a chain of other negative events. This, consequently, lends the cockroach theory which, according to Chen (2022) suggests that when an organisation reveals terrible news to the public, there is a high chance that many more similar,

negative events will come to light later. In the case of Enron, this bad news came in the form of lawsuits and bankruptcy, which in relation, drew attention towards Arthur Andersen and firm's accounting practices. This financial misconduct, consequently, alerted regulators and other stakeholders which in relation brought down many other organisations over the next two years (Chen, 2022). As one would observe, Arthur Andersen's fall was a direct result of its client's Enron denial of vital information. As far as it seems credible to blame solely the client for its negligence, Andersen, as mentioned previously, was compliant with Enron's decisions regarding its promise to act more as a partner rather than objective auditing firm. As a result, Andersen implicitly engaged in psychological acceptance meaning that the company actively embraced the information as well as decisions made by Enron regardless of its positive or negative connotation.

When discussing organisational level, it is evident that in this particular case, it acts a passive role meaning that it does not influence but rather is being influenced by other, individual and collective, levels. For this reason, it would be rational to suggest that no further analysis on the organisational level should be performed.

The second situation, however, regarding the document shredding which pertained Enron accounts, could be viewed from a different angle. In this case, Arthur Andersen was not following any orders from external actors but taking decisions inside the company. As far as it seems highly unethical, from a behavioural perspective, Andersen was not expressing ignorant behaviour by trying to destroy fraud pertaining documents. On the contrary, these decisions might be regarded as fear-based which according to Hubbart (2024) originated from concern over organisational reputation and the potential for financial repercussions. In addition, the document shredding took place after the scandal erupted in the public domain; therefore, this situation may be more appropriate as a consequence of ignorant behaviour. This means that flawed decisions made previously had to be revised and appropriate actions taken to alleviate the situation and keep the spot as a Big Five auditing firm.

Relationship Between Levels

The relationship between these levels, although fairly simple, should not, however, be overseen. The heuristics and cognitive biases, especially forced compliance behaviour, groupthink and denial, present in combined top managements' decisions and deriving from Enron's part strongly affected individuals in Arthur Andersen, whose thinking, naturally, was influenced by self-serving bias, overconfidence effect as well as cognitive dissonance (see Figure 1). This chain of ignorant behaviour, in return, affected the Andersen's team's cognitive capabilities to evaluate information rationally which, consequently, had a strong influence on the organisation as a whole. To put in a different way, in this case, ignorance in knowledge-intensive firms originates from external actors (Enron) and individuals themselves but is illuminated only on the collective level which in relation has an impact on the company itself.

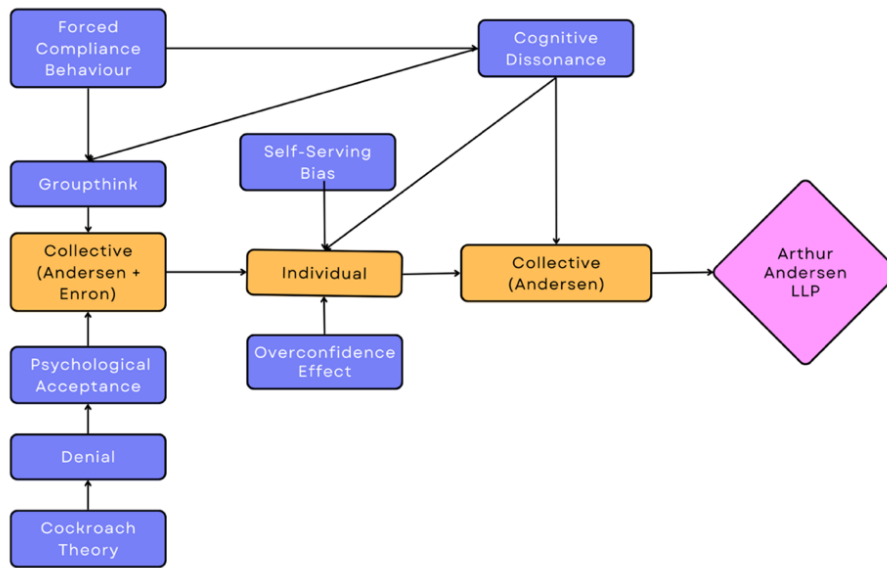


Figure 1. Psychological and organisational factors behind Arthur Andersen’s failure. (Source: Author).

Note: The figure illustrates the organisational and psychological elements that contributed to Arthur Andersen’s demise during the Enron scandal. Individual biases, cognitive dissonance, and forced compliance undermined ethical decision-making. Systemic ethical failures were made possible by collective dynamics, including groupthink, denial, and the ‘cockroach theory,’ which eventually contributed to the firm’s downfall.

Discussion

As one would observe, Arthur Andersen was a subject to many heuristics and cognitive biases on every individual, collective, and organisational level. Taking this perspective, I delve into each of the cognitive impediments found in Arthur Andersen’s and Enron’s relationship and try to understand the ways in which ignorant behaviour is perceptible in knowledge-intensive firms by connecting it to already discussed literature.

To begin with, Arthur Andersen was in an inherent conflict of interest with Enron (Prentice, 2013). This is evident from the company’s multifaceted services spawning into two interdependent domains – management consulting and auditing. This predominantly made Enron a client that Andersen simply could not afford to let go as a result rendering the hierarchical relationship more perceptible. Drawing from a literature review, it is evident that the essence of ignorance, which includes awareness and deliberate action was, in fact, satisfied. When discussing the notion of awareness, in a parallel way both, attention and perception, were active throughout the decision-making process meaning that individuals on all the levels were able to comprehend and rationalise the information received. However, the findings primarily disclose different cognitive impediments than the ones discussed in the literature review. Therefore, we shall understand the correlation of

the findings with the already discussed literature as well as illuminate any original contribution in relation to cognitive biases and relationships between them.

To begin with, forced compliance behaviour is paramount in Arthur Andersen's and Enron's relationship. When this type of behaviour was introduced in the relationship, the accountants working on Enron account, consequently, had to decide whether this type of behaviour is acceptable or should be challenged. As it is evident from the case, employees in Andersen did not immediately accept the behaviour and try to rationalise the situation. Although, from a behavioural perspective unsuccessfully, Andersen accepted Enron's decisions, and both of the companies fell in the groupthink. Both forced compliance behaviour as well as the notion of groupthink were not discussed in the literature as these theories do not directly originate ignorant behaviour but contribute to the likelihood of its development.

As one would observe, cognitive dissonance plays a crucial role in the development of ignorant behaviour. As already mentioned, when engaged in cognitive dissonance, individuals can cope with the uneasiness of incongruent beliefs by changing either actions or beliefs. In relation to organisational ignorance in knowledge-intensive firms, the latter account should be disregarded considering its tendency to change the attitude which, consequently, contributes to the likelihood of ignorant behaviour. To put in a different way, individuals working in the knowledge-intensive environment are willing to change their beliefs not because it contributes to the distribution of knowledge but because an external actor desires it. This leads to more parties being involved in decision-making process which, consequently, may lead to collective cognitive dissonance or pluralistic ignorance.

The auditing giant, when engaging in cognitive dissonance, decided on the outcome from an irrational standpoint. When looking at the individual level, however, other heuristics and cognitive biases were intrinsically present in the decision-making process and had an impact on the distortion of one's perception. In the case of Arthur Andersen, self-serving bias works as a defence mechanism which allows to protect one's self-esteem. Consequently, on the individual level, employees willingly distorted their perception regarding the information received; however, the end goal was not to protect their ego (Cherry, 2023) but to essentially make Enron satisfied. Another heuristic, overconfidence effect, distorted perception on the individual level as well. Following this notion, it is plausible to state that employees' belief in their ability to rationalise information and come up with the best outcome exceeded reality. On the other hand, confirmation bias should not be discussed further since the information received did not confirm the pre-existing beliefs of the employees considering the hierarchical relationship with Enron. This means that their values and beliefs were solely shaped by the client and not previously existing organisational values which further confirms previous statement. At the same time, halo effect did not have any influence over ignorant behaviour in the individual level meaning that the fallacy in reasoning wherein several assessments or evaluations of unrelated elements were not influenced by an impression derived from a single feature or attribute. In other words, in the knowledge-intensive environment, the

halo effect does not have any significant influence over individual level since employees are usually inclined to look for independent evidence rather than immediately accept the information (Rosenzweig, 2007), especially when it relates to personal evaluation.

As one would postulate, the knowledge-intensive firm could have bypassed aforementioned cognitive impediments by employing selective attention. This, however, would have overloaded the cognitive capacity meaning that it would have required much energy to overcome these heuristics and biases. As a result, we can conclude that bounded rationality was, in fact, one of the reasons of ignorant behaviour, however, only partially. The lack of resources, in this case the cognitive ones, has impeded the decision-making process, although, the willingness to look for any aid in overcoming this shortage was not present. The theory of bounded rationality could be linked to rational ignorance, meaning that Andersen was, in fact, making decisions on less vital information; however, in this particular case, the effort to look for more rational information is not present. Consequently, the theory of wilful ignorance should be rejected in this case on the premise that it takes into consideration the intentional, although passive avoidance of vital information which the presence of cognitive dissonance clearly contradicts.

It is, therefore, evident that the only prevalent type of ignorance in knowledge-intensive settings is deliberate ignorance, by which individuals actively and deliberately choose to omit information from the decision-making process, as opposed to wilful ignorance, which predominantly involves passive avoidance of information. Deliberate ignorance essentially encompasses the main underlying notions of awareness and deliberate action which are fundamental for an ignorant behaviour to arise. Acknowledging deliberate ignorance as the predominant form of ignorant behaviour allows knowledge-intensive firms to more effectively address the root causes of this phenomena and put policies in place that encourage transparency, curiosity, and continual learning.

Conclusion

This research paper was primarily based on the genesis of organisational ignorance in knowledge-intensive firms. In other words, it tried to investigate the underlying causes that influence organisations working in knowledge-intensive environment make ignorant decisions. After thorough research, the findings indicate that all three levels – individual, collective, and organisational one – are affected in relation to ignorance. Since organisations prioritising knowledge input more than other inputs work in a different fashion, the notions of various heuristics and cognitive biases discussed in literature review, did not, however, correlate with the notions found in the case of Arthur Andersen, except for cognitive dissonance. The presence of this particular account suggests that all three levels experienced a degree of reflection and/or rationalisation of information received. Since organisations in knowledge-intensive environment usually work with clients, forced compliance behaviour from the part of the client makes both organisations work in tandem making them fall into groupthink. Since there was no transparency and truthful information deriving from the client, a form of denial as well as psychological

acceptance contributed to a falsely cohesive teamwork. The collective level relationship between two organisations impacted individual level and naturally occurring self-serving bias and overconfidence effect. Consequently, the latter accounts impact the perception of one-self, and the information received. Organisational ignorance, consequently, was illuminated in the knowledge-intensive firm's collective level and in relation negatively affected the organisational level. The findings also suggest that deliberate ignorance is the prevalent type of organisational ignorance in knowledge-intensive settings since it satisfies the essential elements of ignorance as well as includes active and deliberate refusal to utilise information and/or lack of motivation to search for additional information which could help make more rational decisions.

This research paper potentially contributes to the fields such as but not limited to organisational behaviour, organisational psychology, knowledge management and agnotology. Since there is not much research done in terms of ignorance in knowledge-intensive settings, this study could be seen as an introduction to further studies on the topic, such as investigating the consequences of ignorant behaviour in knowledge-intensive environment or studying the organisational ignorance from a different field of study. Regarding the limited scope of the study, there are some apparent limitations present such as limited sample size or a subjective analysis of the findings all of which could be managed in the future research.

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