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Organizations

Structures, Processes,
and Outcomes

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chapter 12

Organizational Theory

The objective of this chapter is to examine contemporary theories about organizations. The various theories to be considered permit us to see and understand the different facets of organizations. The intent is not to advocate the superiority of any one theory but to argue that theoretical integration is necessary for full comprehension of organizational processes (see Budros, 1992). There are interesting sets of debates surrounding some of the theories to be considered, and I will attempt to steer through these debates among the various “paradigm warriors” (Aldrich, 1988) involved.

In the sections that follow, we will consider five alternative schools of thought about organizations. These schools of thought can be labeled theories, models, or perspectives, depending on the analyst. Each school yields insights; none has been empirically verified as *the* explanation of organizational phenomena.

Before beginning the consideration of the alternative schools, I want to make it clear that the history of organizational theory will not be included in this analysis. Pugh (1966) and Clegg and Dunkerly (1980) are useful resources for people interested in tracing the historical roots of contemporary organizational theory.

The approach taken here is inductive. The inductive approach permits us to build on the empirical research that has been summarized in earlier chapters. Indeed, the theories themselves have already been identified and critically evaluated at many earlier points.

The theories to be considered are grouped similarly to Pfeffer's (1982, 1997) and Donaldson's (1995) overviews and critiques of organizational theory. Our focus is the organizational level of analysis. Pfeffer bases his analysis of organizational theories on the perspectives on action that are taken. One such perspective sees organizational actions as externally constrained and controlled, and thus we will consider the population-ecology and resource-dependence models as Pfeffer does. At almost the opposite extreme are models of organizational action that see such actions as purposive and rational, with an emphasis on goal direction. Included in this category are the rational-contingency model, which includes the Marxist or class twist to the traditional model, and the transaction-cost model, which has developed out of the field of economics. A final perspective on action sees organizations as based on ideas contained in an organization's field or emergent from the values of organizational actors. This is the institutional approach to organizations. Donaldson's approach is designed to counter the "antimanagement" bias that characterizes American organizational theory (p. 1) and to press for a single model based on the rational-contingency model.

THE POPULATION-ECOLOGY MODEL

The population-ecology model is associated with the works of Aldrich and Pfeffer (1976), Hannan and Freeman (1977b), Aldrich (1979), Kasarda and Bidwell (1984), Bidwell and Kasarda (1985), McKelvey (1982), McKelvey and Aldrich (1983), Carroll (1988), Carroll and Hannan (1989), Hannan and Freeman (1989), Baum and Singh (1994) and Baum (1996). This approach "posits that environmental factors select those organizational characteristics that best fit the environment" (Aldrich and Pfeffer, 1976: p. 79).

The population-ecology approach (sometimes known as the natural-selection model) was a major orientation in our consideration of organizational change and transformation. According to Aldrich and Pfeffer, the model differs from Campbell's (1969) analysis of systemic evolution in that no assumption of progression is made. The natural-selection model does not assume that changes are necessarily in the direction of more complex or better organizations. The direction of change in organizations is simply toward a better fit with the environment.

According to Aldrich and Pfeffer, the population-ecology model does not deal with single organizational units but is concerned with forms or populations of organizations. Organizational forms that have the appropriate fit with the environment are selected over those that do not fit or fit less appropriately.

Following Campbell, Aldrich and Pfeffer suggest that there are three stages in the natural-selection model. In the first stage variations occur in organizational forms. These variations can be planned or unplanned. Once variations

have occurred, the second stage, selection, is reached. The analogy here is with organic evolution, in which some mutations work and others do not. Organizational forms that fit are selected over those that do not. The final stage is retention. The forms that are selected are "preserved, duplicated, or reproduced" (p. 81). Retention is accomplished, in the contemporary situation, through devices such as business schools that train future organizational managers and executives (Aldrich, 1979). The training contains lessons learned from organizational forms that have been successful or selected. Studies in the population-ecology mode have also focused on organizational foundings or births and on organizational mortality or death.

Organizational forms fill niches in the environment. Niches are "distinct combinations of resources and other constraints that are sufficient to support an organizational form" (Aldrich, 1979: p. 28). The notion of niches raises the fascinating possibility that there are unfilled niches "out there" just waiting for the right organizational form. Aldrich (p. 112) suggests that home video games and pocket electronic calculators were examples of unfilled niches being filled, but those are poor examples, since they are not organizational forms but simply consumer products. A better example of a once-unfilled but now-filled niche is the conglomerate corporation, in which a set of unrelated industries are brought together under a single ownership. This was a new organizational form that was selected by the environment as appropriate. This organizational form is now in decline (Davis, Diekmann, and Tinsley, 1994). Another example of a niche now filled is the fast-food restaurant form of organization.

Research on niches (Carroll, 1985; Freeman and Hannan, 1983) has shown that narrow niches tend to support organizations that are specialized, whereas wider niches support more generalist organizations. In Carroll's research, for example, he found that narrow niches in ethnic groups, neighborhoods, and religious and professional groups provided support for specialized newspapers. Freeman and Hannan's research involved restaurants with much the same result.

Aldrich and Pfeffer identify some problems with the population-ecology model. The sources of the original variations are not specified. Managerial processes within organizations are ignored. Inasmuch as only the successful organizational forms will survive in the long run, the processes by which the fit between the organization and the environment is achieved are ignored. The model also has the problem of being analogous to economic theories that assume perfect competition. Perfect competition does not exist in almost all instances.

Van de Ven (1979) provides some additional criticisms of this model. Van de Ven suggests that the notion of "fit" between the environment and organizations is unclear. According to Van de Ven, population ecologists appear to use fit as

... either an unquestioned axiom or inductive generalization in a causal model that asserts that organizational environment determines structure because effective or surviving organizations adopt structures that fit their environmental

niches relatively better than those that do not survive. To avoid a tautology, the proposition implicitly reduces to the hypothesis that organizational survival or effectiveness moderates the relationship between environment and structure. (p. 323)

This is interesting, because effectiveness is scarcely mentioned in the population-ecology modeling efforts. Van de Ven goes on to criticize the population-ecology model for drawing too heavily on analogies with biological systems. This biological analogy is ill-founded, since it does not deal with human decisions and motives. Ethical problems are ignored, and the whole process is viewed as inevitable.

Young (1988, 1989) has also severely criticized the population-ecology model, specifically the form presented by Hannan and Freeman, because of its reliance on biological theory. Freeman and Hannan (1989) believe that the population-ecology approach is well suited for viewing organizations as complex systems with limited flexibility, but Young argues that the approach may be suited for only a narrow range of organizational phenomena.

Van de Ven also criticizes the model because of its downplaying of strategic choices made on behalf of organizations. The variations in forms that occur have some source and, according to Van de Ven, that source is the strategic choices made within organizations. The idea of strategic choice will be incorporated in the present analysis at a later point.

There is another aspect of choice that is not considered in the population-ecology model. Some federal agencies have been created as last-resort responses to socioeconomic or technological difficulties. These agencies fill a niche, to be sure, but the niche is defined by governmental decision makers (Grafton, 1975).

There is an additional troublesome aspect of the population-ecology model. Organizations are not inert masses, even though they seem so at times. Even organizations that are seemingly inert have an impact by their very inertia, but that is not the point. The point is that organizations do things. They transform inputs into outputs. Those outputs have an impact on the society. Individuals, groups, and other organizations respond to organizational outputs. We are harmed and benefited by organizational outputs. In this sense *we* are the environment of organizations. Therefore, if we respond to organizations with support or opposition, and if we have power or can influence power holders, the environment responds to organizations. The population-ecology model tends to portray an environment not as filled with human actors but, rather, as an unfeeling, uncaring condition in which organizations must operate. The model removes power, conflict, disruption, and social-class variables from the analysis of social processes (Perrow, 1979: p. 243).

Carroll's (1988) anthology includes several papers that do in fact deal with institutional, cultural, and political forces, which suggests that population ecologists are paying heed to the criticisms. Hannan and Carroll's (1992) own research includes legitimation, which is a major consideration from institutional

theory, as a major variable. The population ecologists are thus responding to some of the criticisms of their model.

These criticisms of the population-ecology model are not intended to suggest that it has no utility. The model has utility primarily in two areas. As some sort of "ultimate test" of effectiveness, survival is a positive indication and organizational death a negative indication. The natural-selection model can thus give a historical perspective that other approaches do not. It does not work well, however, with large contemporary private and public organizations that are almost guaranteed survival for a short time and even a medium length of time (Aldrich and Pfeffer, 1976: p. 88). The natural-selection model is also useful as a sensitizing concept to the importance of environmental factors. If an organizational form is in a period of growth or decline, because of an expanding or a shrinking niche, any model must take that into consideration. Medical technology in developed countries has now permitted many people to live until old age, with all the attendant infirmities. The organizational form of the hospital is inappropriate for the aging and ill individual who is not faced with a life-threatening emergency. The organizational form of the hospice appears to be filling the niche that was created. Evaluations of hospices will have to take survival and the growth potential into account.

Population-ecology theorists are very careful to note that their approach is concerned with organizational populations rather than with individual organizations. Unfortunately, many of the examples provided by theorists in support of the population-ecology approach have tended to be focused on individual organizations. Part of the difficulty has been semantic and part has been due to insufficient specification of the level of analysis being used. Carroll (1984a) has provided a useful set of distinctions among levels of analysis. He notes that the organizational level can be used when referring to life-cycle processes among organizations. At the population-ecology level, the growth and decline of entire populations of organizations can be traced. Finally, there is the community-ecology level. At this level populations of organizations that exist together within the same region can be examined. According to Astley (1985), the community-population perspective permits an examination of similarities within a population of organizations and also permits analyses of between-population differences. Astley believes that a community-ecology perspective has the room to allow factors such as opportunism and choice to be included in organizational analyses.

THE RESOURCE-DEPENDENCE MODEL

The population-ecology model downplays the role of organizational actors in determining the fate of organizations. There is an alternative model, the resource-dependence model, which brings organizational decisions and actions back into consideration (Aldrich and Pfeffer, 1976; Pfeffer and Salancik,

1978). The discussion that follows relies heavily on Aldrich and Pfeffer's analysis, with some additions and extensions.

The resource-dependence model has strong ties to what has been labeled the political-economy model of organizations (Wamsley and Zald, 1973; Benson, 1975) and the dependence-exchange approach (Hasenfeld, 1972; Jacobs, 1974). The basic premise of the resource-dependence model is that decisions are made within organizations. These decisions are made within the internal political context of the organization. The decisions deal with environmental conditions faced by the organization (Schreyogg, 1980). Another important aspect of the model is that organizations attempt to deal actively with the environment. Organizations will attempt to manipulate the environment to their own advantage. Rather than being passive recipients of environmental forces, as the population-ecology model implies, organizations will make strategic decisions about adapting to the environment. The role of management is vital in this process. The earlier analysis of IORs is based heavily on resource-dependence theory.

The resource-dependence model begins with the assumption that no organization is able to generate all the various resources that it needs. Similarly, not every possible activity can be performed within an organization to make it self-sustaining. Both of these conditions mean that organizations must be dependent on the environment for resources. Even seemingly self-sustaining organizations, such as isolated monasteries, must recruit new members or they will go out of existence. The resources that are needed can be in the form of raw materials, finances, personnel, or services or production operations that the organization cannot or does not perform for itself. Resources would also include technological innovations (Marple, 1982). The sources of resources in the environment are other organizations, the exception being farming and extractive industries that have the potential of owning the raw-material physical base. Even these organizations are dependent on other organizations for other resources. The fact that resources are obtained from other organizations means that the resource-dependence model can be thought of as an interorganizational resource-dependence model.

Since the resource-dependence model portrays the organization as an active participant in its relationship with the environment, it also contains the idea that the administrators of organizations "manage their environments as well as their organizations, and the former activity may be as important, or even more important, than the latter" (Aldrich and Pfeffer, 1976: p. 83). This is the institutional level of operations, in which the organization is linked to the social structure by its top executives (Parsons, 1960).

A key element of the resource-dependence model is strategic choice (Chandler, 1962; Child, 1972). This concept implies that a decision is made among a set of alternatives in regard to the strategy that the organization will utilize in its dealings with the environment. The assumption is that the environment does not force the organization into a situation in which no choice is

possible. The organization is faced with a set of possible alternatives in dealing with the environment. Aldrich and Pfeffer note that the criteria by which choices are made and by which structures are determined are both important and problematic. There is not just one optimal structure or course of action. The resource-dependence model stresses the importance of internal power arrangements in the determination of the choices made. Both internal power arrangements and the demands of external groups are central to the decision-making process. The resource-dependence model does not include the idea of goals as part of the decision-making process.

The resource-dependence model suggests that organizations are, or attempt to be, active in affecting their environment. This contributes to the variation among organizations, since variations are the result of conscious, planned responses to environmental contingencies. Organizations attempt to absorb interdependence and uncertainty, either completely, as through merger (Pfeffer, 1972b), or partially, as through cooperation (Pfeffer, 1972a; Allen, 1974) or the movement of personnel among organizations (Pfeffer and Leblebici, 1973; Aldrich and Pfeffer, 1976: p. 87). The conglomerate corporation is a striking example of variation in organizational form brought about by strategic choice. It is also striking that the conglomerate form has recently been disappearing or selected out.

The resource-dependence model does deal with the selection process, which was central to the population-ecology model. Instead of viewing selection solely from the standpoint of the environment selecting appropriate organizational forms, the resource-dependence model considers the ways in which organizations interact with their environments to ensure that they survive and thrive. The environment is still the key factor, however. Aldrich and Pfeffer (1976: p. 89) argue that the environment contains many of the constraints, uncertainties, and contingencies faced by organizations. Organizational units that have the capability of dealing with constraints, uncertainties, and contingencies are those that obtain the most power within the organization (Hickson et al., 1971). The power distribution within the organization is critical in determining the nature of the choices made, thus linking the environment to the choices made through the power process operating within the organization. The emphasis on power within the organization is a necessary one, since decisions are made in a political context. The resource-dependence model emphasizes interunit power differentials and tends to ignore hierarchical power differences. Hierarchical power differences must be considered in any analysis of strategic choice, since such differences can override interunit power struggles. It is quite possible that interunit power developments, as between marketing and production departments, have a crucial role in determining who rises in the hierarchy, but once the hierarchy is set, the power of the positions at the top of the organization would appear to be most central to the strategic decisions that are made. Regardless of the source of the power, of course, the strategic choices remain tied to environmental pres-

asures. Again, the idea of goals, in the area of decision making, is not included in this model.

There are three ways in which strategic choices are made about the environment (Aldrich and Pfeffer, 1976). The first is that decision makers in organizations do have autonomy. This autonomy is much greater than would be suggested by a strict adherence to environmental determinism. The autonomy of the decision makers is reflected in the fact that more than one kind of decision can be made about the environmental niche being occupied—more than one kind of structure is suitable for given environments. In addition, organizations can enter or leave niches. This is illustrated by the fact that business firms can decide to try new markets or abandon old ones. Similarly, many colleges and universities are attempting to expand their niches, obviously in the face of decreasing demand by traditional students, by offering more and more courses and programs designed for nontraditional, older students.

The second way in which strategic choices are made about the environment involves attempts to manipulate the environment itself. Business firms attempt to create a demand for their products; they may also enter into arrangements with other firms to regulate competition, legally or illegally. Operating through the political process, business firms may also secure the passage of tariffs or quotas to restrict competition from foreign firms. Organizations in the public sector do essentially the same thing when they expand or fight for the retention of their jurisdiction. Organizations seek to reduce their dependency on other organizations (Dunford, 1987). It is also to an organization's advantage to have other organizations dependent on it. Dunford notes that some organizations even suppress technological development, through manipulating patents, as a means of controlling resource dependence.

The third way in which the strategic choices are made about the environment is based on the fact that particular environmental conditions are perceived and evaluated differently by different people. This point is a crucial one and requires some elaboration. Organizational actors define reality in terms of their own background and values. A study documented the manner in which recruitment policies for executives in a large business firm resulted in the firm's having executives of very homogeneous backgrounds (Kanter, 1977). Kanter suggests that this permits the executives to have a great deal of trust in one another, since they will experience things in the same ways and, by implication, make the same kinds of decisions. The problem with such homogeneity, of course, is that the single point of view may be unable to detect errors.

The environment is perceived, interpreted, and evaluated by human actors within the organization. The perception becomes the reality, and environmental conditions are important only as they are perceived by organizational decision makers. Different actors can perceive the same phenomenon quite differently. The point is that the environment is acted upon by organizational decision makers on the basis of their perceptions, interpretations, and evaluations. Although

there may be commonality because of homogeneity of background within an organization, and even this will not be perfect, there will not be commonality between organizations. Thus, different organizations will act differently toward the same environmental conditions, if the perceptions are different. In this regard, the critical question is the extent to which organizational perceptions vary from objective indicators of environmental conditions (Starbuck, 1976).

Aldrich and Pfeffer correctly note that there are limitations on the range of choices that are available to organizational decision makers. There may be legal barriers that prevent an organization from moving into a particular area. Economic barriers also exist. Some projects may be too expensive. Markets can be so dominated by a few firms that it is impossible for a new, small firm to enter.

In addition to barriers that preclude certain decisions, decisions to attempt to alter the environment may not be possible for many organizations. Small organizations, for example, have much less power than large organizations to modify their environments. A small state college has much less impact on the educational environment than does Harvard University.

The final aspect of the resource-dependence model is the manner in which the retention of organizational forms takes place. Aldrich and Pfeffer suggest several mechanisms that organizations utilize to retain previously successful adaptations. In many ways, these retention mechanisms represent tactical decisions about how the organization is to operate once strategic decisions have been made.

One such retention device is bureaucratization. Organizations develop documentation and filing systems. Examples from the organizational past serve as precedents for the organizational present. The development of organizational policy serves the same function. Records and policies can provide the framework and content for decisions to be made. This provides continuity for the organization and ensures that the past forms are retained. Role specialization and standardization, with related job descriptions, also ensure the policies are followed. Another important characteristic of bureaucracy, advancement based on performance, also aids in continuity. If people are advanced through the system, their experiences will be quite common and they will react in ways similar to the ways in which people have reacted in the past. Finally, the bureaucratic mechanism of a hierarchical structure also helps the retention process. The power of those at the top of the organization is viewed as legitimate. Authority is exercised, and each decision is not questioned. Bureaucratization is probably the most efficient form of administration, and all organizations will move toward this form if they seek efficiency (Perrow, 1979).

Another retention device is the socialization process. Persons entering an organization are continually socialized in formal and informal ways (Dornbusch, 1955), with the result that "the culture of the organization is transmitted to new members" (p. 97). Part of the culture of the organization involves folk wisdom and operating "rules of thumb" that persist over time.

Finally, the leadership structure of organizations tends to be consistent over time. As has been noted, people are screened and filtered as they move to the top of organizations. The screening and filtering is done by people already at the top of the organization, and they are very likely to select people who are like themselves.

Furthermore, since the promotion of leaders is based on their experience and expertise in dealing with critical organizational contingencies, to the extent that the definition of organizational uncertainties remains the same, similarity in leadership characteristics is further assured. Organizations that are marketing-oriented, such as consumer goods companies, may tend to promote people with sales or marketing experience, who because of similar backgrounds and socialization, will have fairly similar ideas about organizational policy. (Aldrich and Pfeffer, 1976: p. 98)

There are thus several mechanisms that ensure that organizational forms that have been successful will be retained. The emphasis of the resource-dependence model is on the manner in which organizations deal with environmental contingencies.

Resource acquisition is a major activity of organizations and the resource-dependence model captures this, but it sidesteps the issue of goals. As will be seen shortly, I believe that this model must be augmented by a model that views organizational actions as being goal based as well.

THE RATIONAL-CONTINGENCY MODEL

The resource-dependence model ignores goals, as does the population-ecology model. Both approaches appear to run counter to the reality of actual decision making. In the sections that follow, we will again consider the issue of goals and then turn to the theories linked to a goals-based perspective.

The goal-based approach does not make assumptions about the rationality involved in decision making, nor does it take the simplistic view that organizations are merely instruments designed to carry out goals. Rather, the approach adds goals back into the reasons that organizations act as they do. Goals are part of the culture of organizations and part of the mind-sets of decision makers. Organizations, like the individuals who compose them, are purposive creatures. The purposiveness can be overcome by external pressures, to be sure, and the organization may die or have to drastically alter its operations. The models that emphasize the environment are correct in pointing out the importance of the environment for the births and deaths of organizations. They err, however, in abandoning the consideration of goals.

It is now widely accepted (Lehman, 1988) that organizations have multiple and conflicting goals. This means that priorities among goals are problematic for organizations. Priorities are established by dominant coalitions within organizations. The dominant coalition is a direct or an indirect

... representation or cross-section of horizontal constituencies (that is, subunits) and vertical constituencies (such as employees, management, owners, or stockholders) with different and possibly competing expectations. Consensus about the importance of the various criteria of effectiveness is hypothesized to be a function of the relative weights that the various constituencies carry in the negotiated order which we call organization. Consensus among members of the dominant coalition can be employed as a vehicle for obtaining effectiveness data. For example, how important is market share versus employee satisfaction? What should be the trade-off between research and development, between teaching and research, between patient care, medical research, and physicians' education? And so on. The consensus of the coalition allows the identification of such effectiveness criteria. These criteria may have different degrees of importance for the different constituencies in the dominant coalition; but somehow the preferences and expectations are aggregated, combined, modified, adjusted, and shared by the members of the dominant coalition. By invoking the concept of dominant coalition it is possible to preserve the notion of organizations as rational decision making entities. (Pennings and Goodman, 1977: p. 152)

Pennings and Goodman's term "effectiveness criteria" has the same meaning, for our purposes here, as goals. Their emphasis on rationality is correct but perhaps overstated. If we return for the moment to the environmental-based models, we can see that things happen around an organization that cannot be foreseen. And there may be competing external pressures or internal issues that cannot be rationally resolved because of their clearly contradictory nature. Nonetheless, the Pennings and Goodman approach is useful as a way of bringing goals back into the consideration of politics and decisions made by organizations.

The importance of goals should be approached from another standpoint. Simon (1964) argues that the idea of organizational goals is a reification, or a case of "treating [the goal] as a superindividual entity having an existence and behavior independent of the behavior of its members" (p. 2). The analysis here accepts such reification as necessary and correct. Interestingly, Simon goes on to note:

In the decision-making situations of real life, a course of action, to be acceptable, must satisfy a whole set of requirements, or constraints. Sometimes one of these requirements is singled out and referred to as the *goal of the action*. But the choice of one of the constraints, from many, to a large extent is arbitrary. For many purposes it is more meaningful to refer to the whole set of requirements as the (complex) goal of the action. This conclusion applies both to individual and organizational decision making. (p. 7)

Thus, to Simon and for our purposes here, goals are constraints for organizational decision making. So too are the environmental constraints discussed in the earlier sections. As a way of combining important elements from the perspectives of multiple and conflicting goals and environmental constraints, many analysts advocate the rational-contingency model (Donaldson, 1995, 1996).

The rational-contingency idea has been developed from contingency theory that emerged from Lawrence and Lorsch's (1967) seminal work. Later writers such as Galbraith (1974, 1977), Becker and Neuhauser (1975), and Negandhi and Reimann (1973a, 1973b) developed the basic ideas further. Donaldson (1985) claims that contingency theory is a part of "normal science" (p. ix). His strong advocacy of contingency theory (see also Hinings, 1988) is based on his conclusion that empirical evidence strongly supports its utility—a point with which I agree.

Contingency theory can be summarized in the following manner: "*The best way to organize depends on the nature of the environment to which the organization must relate*" (Scott, 1981: p. 114; italics added). Thus, in Lawrence and Lorsch's study, successful plastics firms were those that were differentiated to deal with an uncertain and changing environment, whereas beer bottle firms, with a less differentiated environment, were less differentiated internally. For our purposes, goals would be equally as important as the environment.

Contingency theory has been heavily criticized as being tautological. It has also been criticized as not being a theory, since it doesn't explain why or how a best way to organize develops (Schoonhoven, 1981; Tosi and Slocum, 1984). In addition, the idea of a best way to organize for a particular environment ignores political considerations, such as demands for collective bargaining, for a minimum wage, or for a union contract (Katz and Kahn, 1978: p. 249). High efficiency could be the result of paying low wages or of inducing workers to work long hours or to work harder. Consumers and regulators are also vital for organizational operations (Pfeffer and Salancik, 1978). Despite these problems, contingency theory has become an important part of the literature on organizations. This importance has been questioned by Meyer, Tsui, and Hinings (1993), who propose that a "configurational" approach be substituted for the contingency model. They claim that the configurational approach is more dynamic, but, in my opinion, it does not add much.

When the idea of contingency is added to the notion of rationality, we have the rational-contingency model. Organizations are viewed as attempting to attain goals and deal with their environments, with the realization that there is not one best way to do so. Findings as diverse as Burt's (1983) on corporate philanthropy and Langston's (1984) analysis of the British pottery industry are supportive of this approach. In the case of corporate philanthropy, it was found that the proportion of business firms' net incomes contributed to charity varied with the extent to which the firms were in sectors dependent upon consumption by individuals rather than other organizations. The organizations perceived charitable contributions as contributing to their profitability through their attempts to enhance their public relations image. In the British pottery example, bureaucratic elements were retained by the pottery firms because the bureaucratic elements increased profitability. Langston implies that this can be interpreted in either a rational-contingency manner or as a Marxist, worker-control strategy.

The Marxian Twist

Marxist scholars have taken a very different perspective on rationality and rational-contingency approaches to organizations. According to Pfeffer (1982):

... Marxist analysis blends environmental determinism with rational, strategic choice. After all, Marx argued that the evolution of economic systems was inevitable and, in his analysis of social forces, saw the presence of certain inexorable historical trends. ... Marxist analyses relevant to understanding organizations have proceeded from the premise of conscious, rational, strategic action taken on the part of the capitalist class and organizations controlled by that class. In this sense, it is an analysis quite consistent with other approaches presuming conscious, foresightful behavior. As Goldman (1980: 12) has noted, "The Marxist position sees a high degree of managerial consciousness and intentionality even omnipotence not only in technical decisions but also in ostensibly benign programs such as welfare work early in the Twentieth Century or the democratization experiments of the 1970's." (p. 163)

Pfeffer suggests that Marxian perspectives are useful in considering two important organizational issues. The first is that of worker control and the employment relationship. The second is that of interorganizational relationships in the form of interlocking boards of directors, which are seen as an expression of "classwide rationality" as much as organizationally based rationality. Classwide rationality (Useem, 1979, 1982; Moore, 1979) exists wherein elites seek to enhance and protect their position through their active participation in the governance of organizations.

There is mixed evidence in regard to the extent to which the worker control and deskilling of labor arguments can be supported. There is strong evidence in regard to the presence and role of interlocking boards of directors.

The Marxist approach suffers from the same problems that afflict the rational-contingency perspective more generally in that although outcomes are intendedly rational, there is no guarantee that they will be so. Just as goals may not be achieved and the environment not be effectively confronted, so may worker-control efforts and classwide rational actions be thwarted. Managers and directors cannot be assumed to be more rational and controlling in a Marxian analysis than they are in any other decision-making and implementation context. Nonetheless, as Pfeffer (1982) notes, the Marxian perspective is more successful than other approaches in linking organizational properties to the broad sweep of history.

The rational-contingency model does *not* assume that rationality can necessarily be achieved, simply that it is attempted. Whether from a Marxist or a non-Marxist perspective, the rational-contingency model views organizational actions as the result of choices made among a set of goals in an environmental context of constraints and opportunities (Drazin and Van de Ven, 1985).

THE TRANSACTION-COST MODEL

The transaction-cost model has developed out of the field of economics and has captured a great deal of attention among sociologists. This model is based primarily on the work of Oliver Williamson (1975, 1981, 1985; Williamson and Ouchi, 1981). The purpose of this model is to explain the existence and operation of organizations, particularly in the private sector.

The starting point for the model is the transaction or exchange of goods and services. It assumes that individuals will act in their own self-interests (the economist's rational "man"). Simple transactions happen in "on-the-spot" situations and are conducted in the free marketplace. Over time, simple markets were replaced by more complex and uncertain situations. The environment in which transactions took place became increasingly uncertain, and simple trust in relationships became more problematic. One consequence was the emergence of hierarchies or organizations.

It is important to note that Williamson takes a turn away from the route favored by most economists. By focusing on the costs of transactions, rather than production, Williamson introduces a new factor into the economics and sociology of organizations.

The typical neoclassical economic model conceived of firms as systems for managing production functions, with the primary decisions focused on the optimal mix of production factors—resources, labor, capital. In this model, variations in organizational structure are largely irrelevant. By contrast, the transaction costs perspective assumes that not the production but the exchange of goods and services is critical, and it emphasizes the importance of the structures that govern these exchanges. (Scott, 1987a: p. 148)

Organizations are seen as the response to uncertain environments. Included in these environments are potential exchange partners whose trustworthiness is unknown and who might behave in opportunistic ways. Bringing transactions under the hierarchy of the organization allows monitoring of behavior through direct supervision, auditing, and other control mechanisms. Behaviors come under the context of the employment contract. Transaction costs are thus reduced or at least controlled by the presence of the hierarchy. The logical extension here, of course, is that organizations would seek continued growth of control through the formation of trusts and monopolies. This has indeed happened, and the government has stepped in with antitrust regulations.

It is also possible for organizations to go in the opposite direction—they can go back to markets as is done with outsourcing, temporary help, and sub-contracts (Lindberg, Campbell, and Hollingsworth, 1991). There is not a necessary one-way movement toward organizations from markets.

Williamson does not claim that the transaction-cost approach is the complete answer to all organizational phenomena. Indeed, in 1985 he noted:

“Given the complexity of the phenomena under review, transaction cost economics should often be used in addition to, rather than to the exclusion of, alternative approaches. Not every approach is equally instructive, however, and they are sometimes rival rather than complementary” (p. 18). Despite this caveat, Williamson continues to argue for the strong explanatory power of the transaction-cost approach.

As might be expected, the transaction-cost approach has raised the consciousness level of sociologists of organizations. Some have sought to attack the approach, whereas others have sought to incorporate it in their analyses of organizations. Typical of the latter are Eccles and White (1988) who studied multiprofit center firms. They note that there are transaction costs within firms, which may actually exceed the costs of external transactions. This is exemplified, in an entirely different setting, by the notion of indirect costs or overhead charged on grants and contracts made by government agencies to colleges and universities. The overhead charges can exceed the direct costs of the programs involved in some instances. Eccles and White do not believe that this negates Williamson but that their findings point to the fact that the traditional concerns of economists and sociologists cannot be isolated from each other, a point with which I agree completely.

In a study that does partially negate Williamson, Lazerson (1988) found that small Italian companies expanded through vertical and horizontal integration. The Italian firms created new small firms, which they controlled. The firms replaced market relations to insulate themselves from competition. At the same time, they increased their dependence on markets by their intensified subcontracting. They created internal markets within the firms, but the important point is that hierarchies did not develop.

A different but still critical twist is found in an analysis of the reforms attempted by the People’s Republic of China (Boisot and Child, 1988). In the early to mid-1980s, China attempted to introduce free enterprise in the form of markets—this is seen as a form of bureaucracy failure. This was not a complete success, because, according to Boisot and Child, the traditional patrimonial fief system continued to intrude on true market operations.

The most systematic attack on the transaction-cost approach is being developed by Granovetter (1985; see also Knapp, 1989). He criticizes the markets-and-hierarchies framework on the basis of his belief that economic transactions are actually embedded in social relationships. Granovetter develops the position that in modern societies economic transactions are linked to trust, which is in turn linked to social relationships rather than to economic relationships.

The transaction-cost model, whether the costs are economic or social, is undoubtedly best used in combination with other explanations of organizational phenomena, as Williamson had noted earlier. Transaction-cost theory must be used in combination with population-ecology, resource-dependency, and contingency theory (Robins, 1987).

My conclusion is that the transaction-cost approach is a necessary addition to the theories discussed earlier. Regardless of whether transactions take place for social or economic reasons, and regardless of whether collegiality ranks with markets and hierarchies as a place where transactions can take place, the transaction-cost approach is important in that it informs us about the origins of organizations. Transaction-cost considerations then operate in conjunction with the theoretical perspectives that have already been discussed.

THE INSTITUTIONAL MODEL

The final theoretical model to be considered is the institutional model. We first introduced this model in the discussion of organizational structure. It can best be appreciated by looking at the ways in which the model seeks to explain why organizations take the forms that they do. Much of the research here has been carried out in not-for-profit organizations with relatively indeterminate technologies. DiMaggio and Powell (1983) argue that “institutional isomorphism” is now the dominant reason that such organizations assume the forms that they do. According to DiMaggio and Powell, Weber’s original (1952, 1968) analysis of the driving force behind the move toward rationalization and bureaucratization was based on a capitalist market economy, with bureaucratization an “iron cage” in which humanity was bound, since the process of bureaucratization was irreversible.

DiMaggio and Powell believe that major social changes have altered this situation to such a large extent that an alternative explanation is needed. Their analysis is based on the assumption that organizations exist in “fields” of other, similar organizations. They define an organizational field as follows:

By organizational field, we mean those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services and products. The virtue of this unit of analysis is that it directs our attention not simply to competing firms, as does the population approach of Hannan and Freeman (1977b), or to networks of organizations that actually interact, as does the interorganizational network approach of Laumann et al. (1978), but to the totality of relevant actors. (p. 148)

According to this perspective, organizations are increasingly homogeneous within fields. Thus, public universities acquire a sameness, as do department stores, airlines, professional football teams, motor vehicle bureaus, and so on. DiMaggio and Powell cite three reasons for this isomorphism among organizations in a field. First, coercive forces from the environment, such as government regulations and cultural expectations, can impose standardization on organizations. Government regulations, for example, force restaurants (we hope) to maintain minimum health standards. Organizations

take forms that are institutionalized and legitimated by the state (Meyer and Rowan, 1977).

Second, DiMaggio and Powell also note that organizations mimic or model each other. This occurs as organizations face uncertainty and look for answers to their uncertainty in the ways in which other organizations in their field have faced similar uncertainties. Public schools add and subtract administrative positions to come into isomorphism with prevailing norms, values, and technical lore in their institutional environment (Rowan, 1982). DiMaggio and Powell argue that large organizations tend to use a relatively small number of consulting firms that, "like Johnny Appleseeds, spread a few organizational models throughout the land" (p. 152). A concrete example, noted by DiMaggio and Powell, is Japan's conscious modeling of its courts, postal system, military, banking, and art education programs on Western models in the late nineteenth century.

A *New York Times* article reports that business firms are establishing formal intelligence departments to keep tabs on competitors from home and abroad. One source is quoted as saying that "understanding your competitors' positions and how they might evolve is the essence of the strategic game" (Prokesh, 1985). In DiMaggio and Powell's conceptualization, the field is more than simply competitors. The establishment of intelligence departments reflects the strong mimetic tendencies within organizations.

Third, normative pressures push organizations toward isomorphism as the workforce, and especially management, becomes more professionalized. Both professional training and the growth and elaboration of professional networks within organizational fields lead to a situation in which the managerial personnel in organizations in the same field are barely indistinguishable from one another. As people participate in trade and professional associations, their ideas tend to homogenize.

The institutional perspective thus views organizational design not as a rational process but as one of both external and internal pressures that lead organizations in a field to resemble one another over time. In this perspective strategic choices or attempts at member control would be viewed as coming from the institutional order in which an organization is embedded.

Institutional theory also places a strong emphasis on symbols. We were given a strong symbol of the place of institutional theory when *Administrative Science Quarterly* placed Scott's (1987b) theoretical review of institutional theory as its lead article. These placements are hardly accidental.

The work of DiMaggio and Powell (DiMaggio and Powell, 1983; Powell, 1985; DiMaggio, 1988; Powell and DiMaggio, 1991) emphasizes the ways in which institutionalized practices are brought into organizations as noted above. Organizations in the same field develop isomorphism as they exchange professional personnel and face common exigencies such as governmental policies.

An alternative institutional approach is associated with the works of Meyer, Scott, and Zucker (Meyer and Scott, 1983; Scott, 1987b; Zucker,

1988). This approach contains a healthy dose of concern for environmental issues but basically turns our attention more inward. The focus is on ways in which practices and patterns are given values and how interaction patterns and structures are legitimated. It is a grand extension of Berger and Luckman's (1967) view that reality is socially constructed. Zucker's (1988) anthology provides an intellectually exciting view of organizations from this institutional perspective. In this set of papers individual actors are viewed as having feelings and meanings. They are not narrow, technocratic decision makers. Organizations are not shaped by the impersonal forces of technology or by the demands of a relentless environment.

Despite the attractiveness of the institutional formulations, I see four problems looming that raise serious issues for institutional theory (Hall, 1992; see also Hirsch, 1997).

The first problem is potential tautological reasoning. This form of reasoning was a major contributor to the demise of functional theory within sociology. "A tautology is circular reasoning in which variables are defined in terms of each other, thus making causes and effects obscure and difficult to assess" (Turner and Maryanski, 1979: p. 124; see also Turner, 1979). This problem appears to creep into DiMaggio's (1988) analysis when he notes:

Put simply, the argument of this section is that institutionalization is a product of the political efforts of actors to accomplish their ends and that the success of an institutionalization project and the form that the resulting institution takes depend on the relative power of actors who support, oppose, or otherwise strive to influence it. I refer to the politics of institutionalization as *structural* because they follow an internal logic of contradiction, such that the success of an institutionalization process creates new sets of legitimated actors who, in the course of pursuing distinct interests, tend to delegitimize and deinstitutionalize aspects of the organizational form to which they owe their own autonomy and legitimacy. Central to this line of argument is an apparent paradox rooted in the two senses in which the term *institutionalization* is used. Institutionalization as an *outcome* places organizational structures and practices beyond the reach of interest and politics. By contrast, institutionalization as a *process* is profoundly political and reflects the relative power of organized interests and the actors who mobilize around them. (p. 13; italics in original)

If that is not tautological reasoning, it is uncomfortably close to it. This quotation also contains the seeds of a problem that will be noted later—the tendency to bring all organizational phenomena under the institutional label. This problem also plagued the functionalists.

The second problem is that institutional theory has paid almost no attention to what is institutionalized and what is not. This can be seen in the weirdly ironic case of Talcott Parsons. Parsons wrote fairly extensively about organizations and even specified the institutional level of analysis (Parsons, 1960). This is not even mentioned in Scott's (1987b), DiMaggio's (1988), or Zucker's (1988) works, although Parsons does reappear in Scott (1995). This

is not a call to go back to Parsons but, rather, empirical evidence that not everything that says institutional is institutionalized.

This is a critical problem. There is a *tendency to apply institutional theory in an ex post facto manner*. This can be done almost mystically. Ideas and practices come and go for no reason other than institutionalization. It would appear that, in reality, some performance criteria are applied in assessing the success of a practice. I will later argue that the adoption of structures or practices is much more than institutionalized whim.

The third problem is essentially ontological. The prime interest rate and changes in it are very real to borrowing organizations; the number of eighteen-year-olds is very real to college administrators; and the number of twenty-one-year-olds is very real to brewers. Institutional theory can be very useful at this point. Individual and collective organizational myths develop about the meanings of these realities. This point has been very well demonstrated. The danger, however, is in making the reality that was the source of the myth into the myth itself.

The fourth problem is overextension. There is a tendency, as noted above, to apply institutional theory to a vast array of situations and organizations. DiMaggio and Powell (1983) were careful to hypothesize that institutional effects were more likely in situations of indeterminate technology and ambiguous goals.

There are additional criticisms of institutional theory. It is seen as ignoring deinstitutionalization processes. Some ideas are rejected, and others are replaced (Oliver, 1992). There is also a strong tendency to overlook or downplay issues such as efficiency (Abbott, 1992). Institutional theory essentially captured organizational theory in the 1990s. It became "institutionalized" itself (Tolbert and Zucker, 1996). In so doing, it has almost become "authoritarian" as it has swept our theoretical landscape (Hirsch, 1997). Undoubtedly, a new perspective will emerge to sweep the institutional approach aside, although that perspective is not yet in sight. Although an exciting new perspective is not *in sight* at the moment, there is excitement in the form of attempts to combine the perspectives that we have been considering.

COMBINING THE PERSPECTIVES

As organizational research moved through the 1990s, there was widespread acceptance of the need to apply these theories in combination, rather than as competing explanations. Fligstein's (1985) research is an exemplar here, as is that by Pfeffer and Davis-Blake (1987), Singh, Tucker, and House (1986), Mezas (1990), and Palmer, Jennings, and Zhou (1993). These researchers do not test theories against one another. Rather, they seek to explain the largest amount of variance that they can. No single set of combinations is dominant.

Fligstein and Mara-Drita (1996) examined rational and environmental factors in the emergence of a single market in the European Union. Goodstein (1994) combined institutional and rational-contingency approaches in an examination of the extent to which organizations get involved with work-family issues. A similar combination of perspectives is found in an analysis of the U.S. Government Accounting Office (Gupta, Dirsmith, and Fogarty, 1994). Resource-dependence theory and institutional theory were combined in an analysis of the proportion of women in management (Blum, Fields, and Goodman (1994). These are examples of a trend that is solidly growing.

SUMMARY AND CONCLUSIONS

It is almost common sense to realize that organizations must acquire resources as they simultaneously seek to achieve their goals and keep up with their competitors. There appears to be a strong sentiment among organizational theorists that the time has come to cease being "paradigm warriors" (Aldrich, 1988) and instead seek fuller explanations through combining perspectives. As this is done, theoretical growth will be evident. We may even be able to move toward the elusive goal of specifying which theoretical explanations work in which settings and thus have truly meaningful explanations of organizations. This book has been an effort in that direction.