

The background of the cover is a close-up photograph of a honeycomb. The hexagonal cells are filled with a golden-yellow substance, likely honey. Several bees are visible, crawling over the cells. The bees have black and yellow striped abdomens and translucent wings. The overall color palette is warm, dominated by the yellow and orange tones of the honey and the bees.

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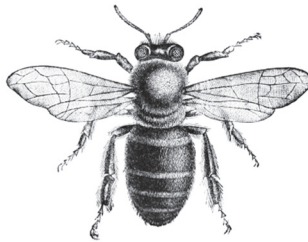
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Preface

This book has both an intellectual and a personal history. Its intellectual history comes from my experience with sharing my academic insights about organizations with a wide variety of students from different age groups and social and national backgrounds. The students constantly reminded me that there is no single understanding of a given organizational phenomenon and that context matters a great deal in understanding. This book's personal history stems from my practical involvement, as a worker, consumer, and consultant, in many different types of organizations and in many different countries. I have observed how organizations struggle with various types of problems. In many cases, these problems were structural in nature, but were experienced as personal failures. Ineffective solutions were often not the result of deficient skill training on the part of organizational participants, but were caused by deep-seated misunderstandings, stemming from differences in personal disposition or social background. I have written this book with a view to the value of pursuing alternative interpretations of organizational phenomena, hoping that the analysis helps readers better connect abstract theoretical concepts to "facts" as they may apply to their own life experiences. A practical test of this book's value is whether it helps readers view organizational matters more clearly, or at least differently.

When writing this book, I also had Bernard Mandeville's *Fable of the Bees* in mind. The structure of an aggregate like an organization is the result of the actions of individuals who may or may not have some larger collective goal in mind, but, in the end, these individuals are what they are: self-interested, but also sociable; competitive, but also cooperative; dependent, but also controlling; and vulnerable, but also resilient. Moral sentiments aside, and metaphorically speaking, organizational participants behave like bees, busily constructing a place for themselves, in an uncertain environment filled with natural enemies and potential cooperators. There is an important difference, however. Like bees, they "dance to each other," but, unlike bees, they also reflect about their dancing, in search for better understanding.

This book is aimed at advanced undergraduate and graduate students in the fields of organization theory and organizational behavior, with applications in

areas like human resource management, strategic management, and small business and entrepreneurship. It should also be of interest to students in sociology, psychology, economics, political science, public administration, social anthropology, and history. It is intended to provide readers with an up-to-date and accessible resource for study, debate, and inspiration regarding a broad range of phenomena in organizations, large and small, in business, government, and the non-profit sector. To make the most of this book, readers should have a basic understanding of the principles of social science analysis and the kinds of questions addressed by social scientists.

I want to thank the many friends, colleagues, and anonymous reviewers who have taken the time to comment on drafts of various parts of this book. I am also grateful to the editors at Sage who have helped me through the long process of writing and revising. My eternal thanks go to my wife, Rosemarie, who selflessly organized much of my non-professional life and buffered my workspace from the pressures of an often unpredictable environment.

1

Introduction: Organizations Matter

Learning Objectives

This chapter will:

- Identify the defining features of organizations
- Distinguish between organization and organizing
- Introduce three theories as conceptual frameworks for analyzing organizational phenomena

1. Introduction

Organizations are essential building blocks of social life, so much so that we refer to society as “organizational society” (Perrow, 1991) and to action as “organized action” (Knoke, 1990a). When chaotic situations follow structured paths, revealing **rules** and procedures, we speak metaphorically of “organized chaos” (Thiétart and Forgues, 1997). When the basic rules of social order are violated, we speak of “organized crime” (Raab and Milward, 2003). Organizations are tools for solving a variety of problems in economy and society, but they can also be a source of new problems, inviting organizational intervention for handling them. It is difficult to imagine a world in which organizations are not significantly involved in the way people make a living, get entertainment, receive education, manage their leisure, represent their **interests**, or have their health restored. The idea of **organizing** is a central element in the cultural toolkit of modern society, describing how people arrange competencies and activities when they classify ideas, prioritize tasks,

assemble resources, or look for patterns in ambiguous situations. For most people, organizations and organizing serve an instrumental purpose; they turn to organizations because they “provide meaning and order in the face of **environments** that impose ill-defined, contradictory demands” (Weick, 1993: 635). For social scientists and other academically motivated people, organizations are interesting in their own right, because they affect the human condition in fundamental ways, independent of the particular products and services they produce in a particular instance.

The general objectives of this book are twofold. First, one needs to understand the role that organizations, as entities ostensibly designed for order and stability, play in market societies in which short-term orientations and flexibility imperatives have come to dominate productive activities in many fields. The integrating function of organizations is sometimes forgotten in areas where people are asked to take on more responsibility for their own fate – to become more self-reliant, self-disciplined, and self-managed. Even so, organizations remain basic building blocks of society, aggregating individual interests and administering social order. By creating new resources, they generate wealth and shape the distribution of power and social status. They also affect people’s life chances by destroying wealth and by allocating resources in ways that restrict access to material and social opportunities. Organizations not only *affect* society; they are *part of* society. By arranging opportunities differentially through distributing positions and rewards, they produce, reproduce, and transform the **structure** of the society in which they are embedded. This book discusses some of the fundamental ways in which organizations relate to economy and society, with a view to their differentiating and unifying, and constraining and enabling features “across indefinite time-space distances” (Giddens, 1991: 16).

The second aim of this book is to push for a multi-theoretical analysis of organizations, to suggest that differences in perspectives and understandings are not something to be deplored, but to be embraced. The study of organizations has grown over the last few decades into a lively subject of theorizing and empirical research, with applications in a variety of areas, including human resource management, strategic management, entrepreneurship, and public policy. **Organization science** is an exciting field of inquiry in which social scientists debate the nature of organizations, how they should be studied, and what the key problems are that should be attended to. Problems range from micro-level concerns, such as how to accelerate decision processes, to macro-level concerns, such as how to coordinate the activities of an organization’s subcontractors. Organizational scholars have developed a wide range of theories and theoretical perspectives for analyzing specific phenomena. The study of organizations is itself organized in that organizational matters are grouped, using criteria such as levels of analysis, assumptions about human nature, and

logics of action. Most scholars in this field are specialized in their use of theories and methodological techniques. This specialization has contributed to the rapid growth of organization studies by cultivating the simultaneous development of specialized topic areas. In the following chapters, three theoretical frameworks – highlighting the economic, institutional, and evolutionary elements of organizations – will be reviewed and applied to a broad range of areas in which organizations are active.

The next section of this chapter will look at the defining characteristics of organizations, with special reference to the dynamic interplay between organization as a structural form and organizing as a process, mediated by human **agency** and social relations, and given meaning by **actors** in the specific context in which an organizational unit, organization, or organizational population operates. The numerous ambiguities and **paradoxes** in organizational life remind us of the importance of revisiting conventional understandings, and they encourage us to enlarge the scope of theoretical lenses with which we study or think about organizations. **Metaphors** are a popular method by which people make sense of organizations and organizational behavior, but they are analytically incomplete. More insightful than metaphors, for understanding complex and dynamic social entities like organizations, is an analytical approach that accommodates multiple theoretical perspectives. This chapter briefly introduces organizational economics, institutionalism, and evolutionary theory as three theoretical frameworks that have spawned major research agendas during the last few decades. While these frameworks differ in core concepts and assumptions about human nature, they address common problems and, when taken together, hold the promise of integrating different insights about a wide range of organizational phenomena.

2. What are organizations?

The everyday use of the term “organization” denotes a **rationally** designed, thoroughly structured social entity whose members work cooperatively towards an explicitly stated common goal. The reality of most organizations, however, differs from this “idealized” depiction. An empirically more realistic and scientifically more sensitive definition of organizations characterizes them as continually evolving activity systems, oriented towards precarious collective goals, and struggling to maintain a distinct identity in an uncertain environment on which they depend for vital resources. Given change and uncertainty, the order and stability that some researchers impute to organizations may not match the perceptions of organizational participants.

Organizations are socio-economic entities, in which calculative elements (e.g., costs, benefits) mix with cultural ideas (e.g., values, meanings), and

categories (e.g., member/non-member, white-collar/blue-collar) are used whose boundaries are rarely clear-cut and stable. As social entities, organizations negotiate economic exchange with reference to **normative** criteria like fairness and equity. As such, they differ from markets in which exchanges are coordinated with reference to prices. Yet, organizations also contain market elements, for example in the form of **internal labor markets** as a mechanism for allocating workers to jobs and setting prices for skills. Organizations differ from other social groupings, like families and religious communities, in that they can more easily replace their members without risking survival. Yet, they also include social elements with community character, for example in the form of structures that sustain friendship cliques and **social networks**. In organizations, individuals acting as if they were autonomous are normally less effective than individuals acting somewhere in-between close-knit social groups (e.g., families) and arm's-length relationships (e.g., global investment markets). Communal features may be essential to the maintenance of the organization's social fabric and identity, but disruptions, stemming from interpersonal conflicts, misunderstandings, or improvisation, are an ever-present possibility in organizations that struggle to survive in volatile environments. The interaction of economic and social forces in an ever-evolving organizational context makes it difficult to study organizations in the way natural scientists approach their subject matter, seeking law-like, universal explanations in the form of unambiguous "if-then" (e.g., "the more of X, the more of Y") statements. Instead of organizational behaviors with law-like consistency, we find tendencies, probabilities, exceptions, and surprises. Organizations are best seen as entities for which "but-also" explanations (e.g., "X may lead to Y, but under certain conditions it may also lead to Z") are appropriate. Few organizational phenomena are so clear-cut that they permit no alternative explanations. Much of the "evidence" collected in research – no matter how carefully designed empirical studies may be – is compatible with different interpretations.

As those who are athletically inclined know, being a good athlete requires more than having a set of skills and the will to succeed. Skills need to be learned and improved, and motivations need to be nurtured and adapted to fit new circumstances. Similarly, an organization is more than a building with a structural foundation, a group of individuals with skills, and a set of plans for construction. An organization has a formal structure, supported by rules and regulations, but it is not a finished entity. Rather, it is a project under construction, involving actors who negotiate options, mobilize resources, coordinate inputs, and monitor performance. One can usefully distinguish between the *organization* as an entity with a structural form and pattern, and *organizing* as action and a process of adapting the organization to new conditions, while noting that structure and action are mutually constituted and that neither structures nor processes are ever final.

2.1 Organizing as process

Organizations are in continual flux, although some aspects of organizations can show remarkable persistence. Interpersonal rivalry, demographic changes in the workforce, protests against felt inequities, and so on, always threaten to undermine existing structures and to unsettle well-tried **routines**. Some changes are minor and they occur slowly; other changes amount to deep transformations in the organization's strategic purpose, technology, or authority system. Individuals matter because they keep things in motion through the actions they take when they join forces with like-minded others, collect new resources, or monitor their rivals. From a process view, individuals are interesting not primarily in terms of differences in attitudes and behavioral dispositions, but more with a view to their ongoing efforts to maintain or change their condition in the organization. Investigators taking a process approach study not so much *why* individuals engage in certain actions than *how* they act, looking for temporal patterns evident in sequences, paths, chains of events, disruptions, formations, and so on.

The idea of organizing leads to the understanding of organizations as **social constructions**. Organizations are socially constructed in the sense that there are individuals who, on the basis of preferences and capabilities, and in interaction with others, negotiate goals, evaluate requirements, make decisions, and enforce sanctions. People are not necessarily aware of all the details of what they are doing. They may not explore all possible options, may act out of habit, and may justify their behavior *post hoc* in light of the outcomes of their actions. Their behaviors, planned as well as haphazard, contribute to the reality in the organization to which they then adjust. Organizational realities can differ widely across space and time, contingent on the demands that participants face in specific contexts. For example, when convicts are sent to prison, they have to learn to survive in a different physical reality, and nurses adjust their occupational realities when a new technology is introduced. New realities are the *provisional* end points of variations in organizing activities.

Process has become the mantra of “postmodern” organizations, the antithesis of the stifling traditionalism of organizations in earlier periods. This is the organization of programs and procedures, in which everything of value is legitimized through a process language: process management, group process, learning process, optimization process, and process optimization. Some scholars go as far as to *define* organizations in processual terms, highlighting the actions that “create, maintain, and dissolve social collectivities” and suggesting that “the ways in which these processes are continuously executed *are* the organization” (Weick, 1969: 1, emphasis in the original). Organizing involves series of events and social interaction processes through which adaptation, learning, and innovation take place, without ever reaching a final end-state.

This is most apparent in hazardous work settings like firefighting and aircraft carriers (Weick, 2001), but it also describes what happens in more routine situations, where individuals change the features of an organization, however slightly, every time they reassemble at the workplace and go about their daily tasks (Birnholtz et al., 2007). In the process of getting a little more experienced, learning new things, and discovering new problems, they contribute in one way or another to the organization's development. The anecdote below reveals a dynamic situation, involving a sequence of interpretations and interactions between a car rental agent and an irate customer. Both sides in this heated exchange are trying to bring order to the situation by structuring their social interaction towards a particular end. The organization in this instance is emerging through a process of sense-making, as Martin is using his understanding of an irresponsible organization to give meaning to the employee's behavior, while the employee is using her understanding of rule-based organizations to accommodate Martin's behavior. The outcome is a fragile state of affairs, rather than the kind of order and stability one often associates with the **concept** of organization.

ANECDOTE 1.1

It was the first skiing vacation in the Austrian Alps that Maureen was about to take with her family. Because she could only take five days off from her job in Liverpool, she had carefully planned her trip to Austria. She did not want to leave anything to chance. She had reserved her favorite car model with an international rental agency in Liverpool, where she was promised that the car, equipped with snow chains and a ski rack, would be ready for her to pick up at Vienna airport.

When Maureen arrived at the counter of the rental agency in Vienna, the lady there told her that she didn't have the vehicle Maureen claimed to have booked and that it did not include the equipment she said she had ordered. Maureen explained to the agent that she had made the booking two months ago and that she had been promised the delivery of the car fully equipped for travel in deep snow. The agent seemed indifferent to Maureen's plight and, shrugging her shoulders, she remarked in nearly fluent English, "Well, I'm sorry, but that was in Liverpool. We are here in Vienna." "But this is the same agency," Maureen retorted as politely as possible. "Sorry, I can't help you," the agent insisted. "We don't have a car for you." Maureen quickly became impatient. It was already afternoon and she wanted to reach the resort town before nightfall. "Doesn't your office in Liverpool forward reservations to your unit here in Vienna?" she asked. "Isn't that the whole point of making reservations ahead of time?" "Yes," the agent snapped, "I know how this works." "So what's the problem?" Maureen asked. "The problem is that you must have given them the incorrect information," the agent replied sternly.

Meanwhile, Martin, Maureen's Austrian friend, who had come to the airport to meet her, had come over to the counter. He asked firmly: "I don't really care about who is to blame. I want to know what you do when a reservation goes wrong? Don't you have some sort of cooperative arrangement with any of the other rental agencies at the airport? Maybe they have the vehicle

that my friend here wants.” Looking at him in disbelief, the agent told him that there were no such arrangements. “I can’t just dream one up,” she said. “Well, maybe you could just ask the agency next door,” Martin suggested. “No, I can’t,” she snapped back. “That’s not our policy here.” Maureen’s German was good enough to understand that Martin had become furious about what he called “outrageous behavior” and an “abusive attitude” on the part of the rental agent. “I don’t care about your company policy,” he insisted. “When something goes wrong, it’s your business to make it right. Can’t you be a bit flexible?” “We have procedures, you know, and my job is to follow them,” she said. When Martin told her that he wouldn’t go away until the matter was resolved, she handed him a slip of paper on which she wrote the phone number of the agency’s office in Liverpool. “Here is a number you can call.” At this point he pounded with his fist on the counter, shouting something about “lousy service” and announcing that he would complain to the management of this company, both in Vienna and Liverpool, and that, if necessary, he would write a letter to the local association of tourist bureaus, the airport authority, and the Vienna city marketing office, and anyone else who he thought should be interested in the way customers are treated by this company. He was still shouting long after the agent had disappeared into a back room, never to be seen again.

This story suggests that organizations should not be taken for granted, not even organizations as large and mature as international car rental agencies. Organizations are continually constructed, both by members and customers who, in the process of interacting with one another, create outcomes that are not always the best ones possible, for reasons related to deficient information, differential bargaining power, human emotionality, and so forth. Organizations are not merely the formal system of hierarchies, rules, and standard operating procedures that we normally think make organizational life predictable. More often than not, organizations are in a constant process of becoming something other than what is set out in strategic plans, mission statements, goal-setting exercises, and the like. If organizational structures hold up over time it is often only because people improvise, compensate, self-correct, or acquiesce. From an organizing perspective, an organization is never a finished product but is the precarious result of a never-ending process of changing and adapting.

2.2 Organization as structure

While the concept of organizing conjures up the image of a river, denoting flow and fluidity, the concept of organization may be visualized as a river bed, anchored in a location and giving flows direction. The organization has a structure, giving it a specific form and pattern, and is measurable in terms of levels of hierarchy, degrees of task differentiation, or number of written rules

(Blau and Schoenherr, 1971). If individuals matter in the structural *form* that an organization takes, it is more in terms of their interdependence in the workflow than their psychological disposition or cognitive capacity. From a structural perspective, individuals' understanding of their membership in the organization is embedded in the other-directedness of their actions. The car rental agent in the above anecdote (1.1) defends her actions with reference to her position relative to others in the organization's system of policies, rules, and procedures, and relative to the customer who, presumably, does not understand the organization's rules.

The organization as structure refers to relationships between positions rather than positions *per se*. Organizational positions are locations occupied by people performing such roles as project leaders, departmental employees, or task force members. Positions have a natural structural interpretation because they are defined *vis-à-vis* each other rather than in terms of content, such as whether the position contains technical expertise or discretionary power regarding the spending of money. In structural language, a person occupying a position is connected to others in some way. The position of a top executive is "distant" from that of a sales clerk not because these individuals perform different tasks or use different knowledge, but because they sit in different locations in the organization's pattern of social relations. Although they may differ in the level of decision-making **authority**, they may be *structurally* similar in their relationships to some of the other individuals in the organization. For example, they may both personally know the head of the finance department or they may both obtain coaching from the same consultant. "Structural equivalence" means that the individuals occupy the same location in the relational system of the organization, even though they may never meet physically or may be unaware of each other's existence.

2.3 Human agency and social relations

An organization's relational system does not exist on its own but is "made to happen" by individuals who have some reason for whatever they are doing. Relational systems are constructed by agentic individuals who interpret events, make decisions, or distribute favors. The distance in power between the executive at the top of the organization and the sales clerk at the bottom of the hierarchy may be insurmountable formally, but this does not mean that the sales clerk is completely at the mercy of the executive. Subordinates can protest against felt injustice, recruit the help of others to negotiate a better deal for themselves, or withdraw into "inner exile." Superiors with formal authority can exercise power only to the extent that subordinates comply with

their commands. Even discretely bounded categories like male/female, black/white, or native/foreign are not fixed properties, but require human agency to translate perceptions and labels into action to maintain the meaning of differences and similarities. Structures make a difference only once they are given meaning through human action, while action always takes place within and in response to existing structures (Giddens, 1984).

Agency means more than individuals acting out some purpose and *doing* something; it also includes the capacity to understand the conditions and reasons for their actions. Individuals behave as agents if they act self-reflexively, within a broader structure of rules, positions, and conventions, which guide behavior without determining it (Giddens, 1984). “True artists” (Bain, 2005), “real craftsmen” (Sennett, 2008), and “born teachers” (Ogbonna and Harris, 2004) are often mentioned as examples of human agents who attach a strong sense of self to their work and who forcefully negotiate their identity in an often hostile economic environment. The aggregate outcomes of their actions, such as government subsidies for a stagnant industry or a new accreditation system for a profession, may not be intended by anyone in particular, but without their actions nothing may have happened. Agency is the thread that weaves economic transactions, social structures, and institutional contexts together, relationally and dynamically.

The concern for agency in organization studies is part of the “relational turn” that has taken place across the social sciences in recent years (Emirbayer, 1997). From a relational perspective, aggregate phenomena, such as income inequality or bureaucratic rigidity, are not primarily a function of *personal* attributes (e.g., charisma, resilience), but are the result of contestation, negotiation, competition, and cooperation within a dynamic system of *social* relations between differentially endowed actors. In organization studies, the concept of **relation** refers not only to interpersonal relations in a work group and to relations between organizations and environments, but also to relations between humans and artifacts (e.g., architects and buildings, programmers and computers) and between non-human entities (e.g., tasks constituting jobs, texts constituting websites). **Narratives** (e.g., stories about successful entrepreneurs) consist of relations between ideas, with a structure that defines a beginning and an end, as well as turning points and new directions in-between (Mohr, 1998). Relational systems, such as statements in company reports, events in organizational initiation rites, or decisions in an employee recruitment process, can be examined with a view to the evolving connections between the constitutive elements (Pentland and Feldman, 2007). The goal of a relational representation of organizational phenomena is to provide insight into their social construction across time and space, enabling researchers to simultaneously consider issues of substance (e.g., knowledge), form (e.g., structure), and process (e.g., adaptations).

2.4 The dynamic interplay between action and structure

Variations in organizing actions extend to variations in **organizational form**, although there is no one-to-one relationship between the two. In one case, organizing efforts may lead to flexible structures supporting spontaneous communication between workers; in another instance, the same organizing behaviors may trigger new structural constraints through the clarification of formal procedures. The difference in outcomes may be due to resource availability, the technology in use, the personalities of individuals, or some other factor. Although there is no one-to-one relationship between action and structure, they are not independent of each other. Viewed dynamically and across the micro–macro-level divide, structure is the source and outcome of processes as well as the medium through which processes unfold (Giddens, 1984: 16–28). Decision-making processes, for example, have structural outcomes regarding the distribution of power and information. Conversely, the way in which decisions are made – how fast or how consistently – is shaped by structural features, such as the composition of the decision group in terms of people with similar and different skills. While differences in human psychology and cognitive capability are important, their impact is mediated by the relational configuration of the entity under investigation. If one ignores this aspect in the characterization of organizational behavior, one no longer has enough structure to interpret the interactions among the organization’s participants.

Structure is inextricably and dynamically linked to action as both its medium and outcome. Individuals draw on the organization’s structure, in the form of rules, resources, and incentives, and in doing so they reproduce or transform these same properties (Giddens, 1984). For example, people who have a secure position in the organization’s employment structure are more likely to report a case of witnessed harassment than people who are in a more peripheral and temporal organizational position (Folgerø and Fjeldstad, 1995). Their intervention may stimulate the creation of formal rules of conduct to prevent harassment, but new rules may lead to the perception in the workforce that there exists widespread harassment in the organization, with the effect of intensifying the reporting of real or imagined cases of harassment, and then leading to a further tightening of rules. In this way, the organization becomes more structured over time, with new rules and resources spent on enforcing the rules, and with outcomes that may or may not be in line with the actors’ original intentions.

There is nothing inherent in the interplay between structure and action that would lead only to *functional* outcomes, from the point of view of the organization or its individual members. High-rise apartment buildings, such as those shown in Exhibit 1.1, may be designed for clean, safe, and efficient living, but the same design may also give rise to social alienation, crime, and vandalism. Architecturally and culturally diverse urban spaces, like those

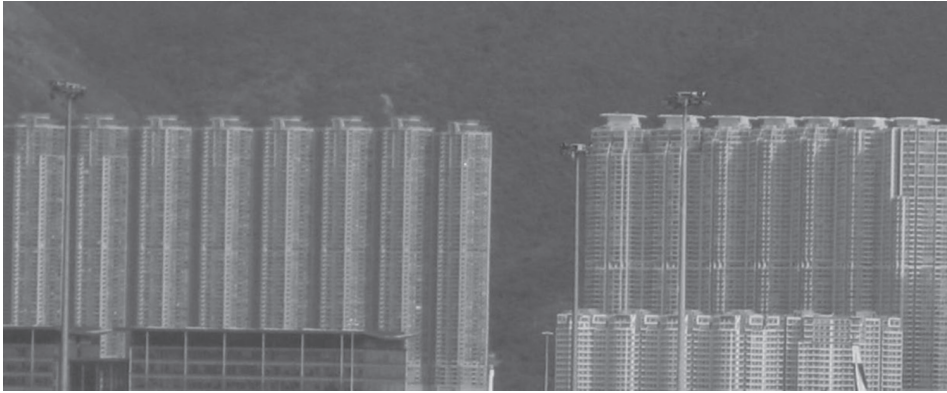


Exhibit 1.1

shown in Exhibit 1.2, may be planned for human enjoyment and entertainment, but they may also cause overcrowding and pollution. An organization is not merely a formal arrangement of purposively planned activities. It is also the result of forces arising spontaneously out of the social interactions among the participants. Some parts of an organization are expected, preferred, or prescribed; other parts are downplayed, not observed, or avoided. This means that it is not sufficient for the investigator to simply state the functional or dysfunctional results of particular organizational forms. The analyst also needs to identify the processes which account for the construction and transformation of organizational forms in a specific context.



Exhibit 1.2

2.5 Organization and context

Organizations and organizational units are not stand-alone entities. All social interaction in and between organizations occurs within a larger context, which can itself be the subject of investigation. Context is that which “surrounds” a particular phenomenon and is analytically distinct from the phenomenon itself. Interactions evolve across levels that are contextually “nested” within each other. “Nesting” means that higher levels in the system contain lower levels and that levels become increasingly inclusive as one moves up the “hierarchy” from component entities, such as decisions and rules, to organizational populations, such as industries and regional business clusters. Hierarchy of levels does not mean that higher levels are more important or more real in any way than lower levels. It does mean, however, that phenomena are generally more complex and often more disorderly at higher levels, given that at higher levels there are more contexts and a greater variety of interrelated **variables**. Organizing is generally more diverse at higher levels than at lower levels. Individuals can less easily influence outcomes at the organizational level than the immediate job level, and it takes more time for individuals to affect what happens in industries than it takes organizations to make a difference at the industry level. Still, individual actions are consequential for higher-level phenomena; they keep the organization in motion, while the organization’s structure provides the context in which the actions unfold.

The fact that external environments vary in the terms on which different types of resources are available to organizations explains much of the wide variation in organizational forms (Hannan and Freeman, 1989). Consider the many differences between museums and churches, or the differences between consulting firms and machine shops. These organizations differ in mission, authority structure, knowledge base, and task complexity, and they differ in how the details of these elements, as well as the processes connecting them, play out in specific instances. The practical day-to-day challenges of, say, maintaining order, may be tied to situational specifics, such as the nature of a particular customer. The recalcitrant customer described in Anecdote 1.1 may very well be one that the employee of this organization has never encountered before, causing her to retreat behind existing organizational rules rather than experiment with new behaviors and accept the risks associated with improvisation. In a less rule-constrained organization, the employee might have been more willing to try out new approaches to dealing with “difficult” customers, but testing this expectation requires the incorporation of contextual contingencies. Without the presence of customers posing unique challenges, the employee might never learn the benefits and costs of alternative behaviors in a different context. That is, to understand particular actions, one also needs to know the context in which the actions occur.

Contextual variations draw attention to the limited applicability of particular organizational models. For example, **mechanistic** models of organizational structure, which emphasize strict rules and centralized decision-making, may be more appropriate for technical organizations specializing in aircraft maintenance than they are for religious organizations mobilizing people's ideas about spiritual issues. People studying organizations should always ask questions about the conditions under which a particular **practice** or structural feature will make what kind of difference and for whom. For this, they need a **theory** or, preferably, several theories with which they can develop non-obvious hypotheses and then put them to an empirical test. And those who work in organizations and are looking for predictability, efficiency, legitimacy, or some other outcome should be aware of the impact of situational specifics. For this, they also need a theory that helps them understand what they are doing and why they are doing it. Some organizational settings are so complex and volatile that people have difficulty distinguishing between what is a unique and non-recurring situation and what is a regular and generalizable pattern. Effective theorizing includes statements about *how* context affects the phenomenon under investigation, rather than merely acknowledging the existence of context or describing contextual differences. Regarding the rental agent's behavior in the anecdote above, an analytically insightful question would ask why and how a different context, such as a different type of customer or the absence of a customer's friend, would trigger different behaviors. Understanding the **mechanisms** by which different features of the context exert influence would make organizational models regarding the effectiveness of particular structures or behavioral routines more accurate and robust (Elster, 2007).

3. Thinking about organizations metaphorically

People who look for general patterns in an organization may find it difficult to appreciate the details of its inner workings. Rather than engage in a systematic analysis of some complex phenomenon, which would require them to examine how some event or process results from or leads to a larger set of interrelated variables, they often use metaphors as a short-cut to understanding. Metaphors are implied comparisons, used to represent an ambiguous concept in terms of another, more familiar concept. Metaphors are popular in general parlance, but also researchers employ metaphors to communicate the essentials of a difficult phenomenon (Oswick et al., 2002). For instance, the machine metaphor ("This team runs like a well-oiled machine") draws attention to the close interdependencies among the constitutive elements of an entity to highlight predictability and efficiency. Some people may use this

metaphor to emphasize the organizational order of residences like the massive apartment complex shown in Exhibit 1.1. They may view the uniform architecture as an indicator of things that are characteristic of hierarchical controls (“knowing one’s place”) and formal standards (“following the rules of the house”) in large-scale organizations, and they may interpret machine-like structures as comforting if they offer order and accountability. Others may draw the opposite inference from this metaphoric depiction; they may criticize the hierarchy and discipline in a machine-like order as dehumanizing and emasculating.

Organizations that are designed to work like machines may have efficient processes but they are not always effective in consequence. People may think of organizations with machine-like forms as “sinking ships,” running aground because of their inability to initiate fundamental change or to effect change quickly. Or, they may believe that machine-like structures eventually turn into “treadmills,” forcing individuals into routines as if they were climbing up a never-ending staircase. In contrast to the machine image, the metaphor of organizations as “garbage cans” conjures up the idea of chaos, but, in specific contexts, the consequences of chaos may be benign. People may perceive the diverse mass of people, buildings, and artifactual contraptions at San Marco Square in Venice (Exhibit 1.2) as disorderly, but it is also colorful and lively, attracting innovations. The buildings represent a variety of architectural styles, with cultural meanings imported from different historical epochs and regions in the world. The individuals who had them erected, over the course of several centuries, could not foresee the diverse functions they serve today (e.g., eating and drinking, art exhibitions, award ceremonies, film locations). If there is any order at all in this diverse assembly of buildings, purposes, and people, it is likely the result of **organic** adaptation, rather than deliberate mechanistic planning. The dynamic coherence of organizations with an organic form results from the interdependence of differentiated elements and from the ability of each element to adjust to the requirements of its own context, which may help organizations survive in changing environments.

Metaphors can be helpful as a sensitizing device, encouraging people to question old wisdoms and conventional assumptions, but they may also cement current thinking. Organizations that feel like “a golden cage” can turn into an “iron cage,” but this may only tell part of the story. Metaphors focus on what is considered essential in a given phenomenon, but they may also obscure certain aspects by leaving out what people are not familiar with or what they are not looking for. Metaphors treat the organization *as if* it had the characteristics of the entity one is familiar with. By highlighting familiar features, they illuminate what one believes is central to an organization and what one thinks one knows about the organization already. For example, when

people characterize the presumed “disorganization” of a parliamentary assembly as a “circus,” they may not only reinforce their assumptions about complex decision processes in a political entity like a parliament, but they may also ignore the potential flexibility and innovativeness of circus-like structures. To the extent that such structures permit resource redundancy, encourage cognitive diversity, and support constructive rivalry, they may be ideal for situations requiring innovation, improvisation, and imagination.

Metaphors thus draw attention to the perspectival nature of organizations. What matters is how we see things, and that depends on the perspective we take. Organizational reality is never clear enough to permit a single true representation, so that the observer needs to make a choice between available perspectives. This is not necessarily a bad thing. To the extent that different theoretical perspectives overlap and complement each other, there is some common ground on which fruitful debates can take place. Perspectival diversity provides a richer environment for learning and innovation than adherence to a single perspective. Different perspectives make accessible different kinds of information and thus provide a foundation for alternative understandings. In the complex world of organizations, applying a single perspective carries the risk of becoming corrupted by a hegemonic view, ending in a blind alley, and forgetting that all theorizing is a project of construction, a process of sorting out key concepts and of distinguishing genuine phenomena from noise. Consider the limitations of trying to make sense of the image shown in Exhibit 1.1 from a single perspective. Economists may emphasize the resource efficiency of accommodating large numbers of people in tightly structured high-rise facilities. They may note the cost savings of clear rules for negotiating and enforcing contracts, but may ignore the disruptive power struggles in contract negotiations. Theorists taking a sociological perspective may attend to the relativity of claims about efficiency. They may argue that preferences are shaped by concerns about social status, but may ignore the economic costs of maintaining status differentials relative to the benefits. Cognitive theorists may focus on human perceptual errors to explain why some residents in this housing complex feel anonymous, but they may overlook the role of social biases in perceptions. While each perspective adds important insights, there is the danger that scholars who build a research program solely on the basis of a single perspective get caught within the narrow confines of the perspective they have chosen. It is often through the synthesis of different theoretical perspectives and the borrowing of concepts from related or competing perspectives that deep understanding is obtained (Whetten et al., 2009). Difficult situations, such as those depicted in Anecdote 1.1, are an invitation to move beyond common-sense reasoning and speculation, and to engage in detailed theoretical analysis (Merton, 1967).

4. Organizations as a field of theoretical inquiry and empirical research

Many scholars take an **empiricist** approach and pursue organization studies as if it were a natural science, seeking to discover objective realities and general laws for explaining them. Others reject the natural science approach in favor of a view of organizational realities that is constructed by **intendedly rational** people and is difficult to grasp with law-like generalities. These realities come with all the ambiguities and surprises that construction “from the ground up” implies. Many scholars value **theoretical pluralism**, noting the complexity of organizations as settings where economic, social, cultural, political, and psychological forces interact, with outcomes that are often impossible to predict. Others believe in the incommensurability of **paradigms** that are grounded in different assumptions about the subject matter and in different views about what counts as research. Some scholars deplore the lack of consensus in organizational theory, while others would be surprised if organization scientists should ever reach consensus about anything.

Researchers often work with abstract concepts like **bureaucracy** and routines in order to arrive at general principles of organization that hold across time and space. The problem with universal concepts is that while they may cover important general ground, they tend to leave the proverbial “black box” untouched. The black box of organizations contains many different processes and mechanisms. Bureaucratic organizational structures, for example, limit individual discretion, but they also empower people and enable action. Routines contain rules that provide stability, but these are also the subject of negotiation and the target for change. Abstract concepts may also cut across problem areas in which different mechanisms are at work. The mechanisms that causally link, say, organizational rules to innovation in professional organizations (e.g., law firms) may differ substantially from the mechanisms linking rules to innovation in non-professional organizations (e.g., video stores). Unpacking concepts, as well as the mechanisms that causally link concepts, is necessary if we want to understand organizational realities in different situations. In the end it is reality, or at least a particular interpretation of reality, that needs to show if the concepts that scholars work with provide useful insights.

As in social life in general (Tilly, 2006), the members of organizations do not always know exactly what they are doing and why they are doing it. When asked about the reason for their behavior, they often match their answer to what they think the person asking them wants to hear, and they rarely collect the data necessary to test their assumptions. Even highly educated managers are often not aware of the main research findings in their field of expertise, or they fail to implement the recommendations flowing from that research (Rynes et al., 2002). When dealing with difficult situations, people tend to

engage in **heuristic** decision-making, relying on cognitive short-cuts such as common sense, intuition, single-case observation, or their own experience (Kahneman, 2011). They may behave habitually or they may conform to what they think the majority are doing in a particular situation. In some cases, making a decision on the basis of intuition or habit may indeed be preferable, for example, when there is not enough time to consider all possible variables and alternative options. In other situations, this produces highly sub-optimal outcomes; important problems are not solved, or new ones are created. Academic scholars would suggest that the employee in the anecdote above (1.1) reflects on the likely consequences of adopting a different behavioral approach towards this customer, based on a theoretical understanding of human behavior in different contexts. In this particular instance, understanding might come, for example, from theories about human cognition, decision processes, or organizational routines.

A central aim of this book is to help readers appreciate the value of a multi-perspective analytical approach to the study of organizations. Openness to diversity of perspective is useful for both scientific progress and for applications in organizational practice, although it is not easy to weave through the multitude of theories and theoretical perspectives current in the field of organization studies (Baum, 2002; Clegg et al., 1996; Scott, 2004; Tsoukas and Knudsen, 2003). Arguably, some of the perspectives in use do not constitute a logically coherent set of concepts and statements. They are better thought of as “orientations” to specific aspects of the organizational world, but this does not necessarily limit their usefulness. Also, perspectives may blend into another in ways that can make it difficult to apply them separately in particular instances. It is, however, possible to distill several general *frameworks* that differ in main premises and arguments and which have attracted sustained attention in organizational scholarship in areas such as organizational design, strategic management, change management, human resource management, innovation management, and entrepreneurship. In this book, three such theoretical frameworks – emphasizing the economic, institutional, and evolutionary dimensions of organizations – will be applied to problem areas ranging from the interactions between individuals to the relationships between organizations and environments.

Organizational economics, institutionalism, and evolutionary theory can be considered theoretical frameworks – or theory groups – in the sense that they assemble interrelated concepts under the same umbrella and provide a reference point for interpreting empirical observations. When applied together, they are useful for organizational analysis in at least two ways. First, they draw attention to the recursive relationship between action and structure, providing insights into the fundamental question of how organizational reality is constructed, and with what effects. In doing so, they attend to the close links

between organizations and the people in them, highlighting the **emergent** aspects of organizations. Actions always emerge out of pre-existing structures, in an evolving context that shapes but does not determine outcomes (Sawyer, 2001). The results of emergent systems cannot normally be predicted even under the best conditions and even if one has full knowledge of the pre-emergent properties of the organization. The interplay between economic, institutional, and evolutionary forces guards against excessively **deterministic** accounts of organizations as mere dopes of environments to which they respond automatically.

Second, economic, institutional, and evolutionary frameworks address the problem of relations between actors, rather than only the attributes of actors. Studying relations affords a look into the black box of organizational life, taking into account the interests of individuals and organizations as **causal agents**, without treating them in isolation from the context in which they are embedded. Organizational phenomena cannot be reduced to individuals alone, as individual behavior in and between organizations is always mediated by social relations. It is not only the existence of a connection that matters, but also the nature and quality of the connection. Friendship ties may work differently than gossip ties, and it makes a difference if social ties in project teams, interest associations, or strategic alliances are underpinned by pecuniary motives, institutional regulations, cultural meanings, or some other consideration.

Social relations, and the dynamic interplay between action and structure, figure prominently in organizational economics, institutionalism, and evolutionary theory, although researchers may approach them differently in specific instances, focusing on different details and sorting them in different ways. In a study of career development in and between organizations, for example, investigators might highlight different structures of opportunity and mechanisms of “getting ahead.” Career is an example of general concepts that appear in a variety of research programs and are studied from different theoretical perspectives. Individuals have careers (e.g., employment and skill development), as do work teams (e.g., formation and stagnation), professions (e.g., legitimation and institutionalization), and ideas (e.g., generation and diffusion). Economic, institutional, and evolutionary processes play a role in each of these areas, but the explanations of origins and outcomes, and the mechanisms connecting them, differ between perspectives. From an economic perspective, careers evolve through employment episodes, reflecting the worker’s economic worth to the organization (Masters and Miles, 2002). From an institutional perspective, career advancement is affected by social institutions such as family, education, and health care (Kalleberg, 2009). And evolutionary theorists view career development in terms of the distribution of job opportunities in the organization’s job ladder (Miner, 1990). Theorists who work within these theoretical frameworks focus on different mechanisms through which

career development affects a person's life chances, and they may arrive at different conclusions. It is not only *what* scholars see but *how* they see it that gives each framework its distinctive flavor, while being open to accommodation between different perspectives. The following section provides a brief summary of the key concepts and arguments in each of these frameworks, as they will be used throughout the subsequent chapters in this book.

4.1 Organizational economics

Standard economic theory has little to say about organizations, even though it is mostly through organizations that things of economic value are produced and distributed. In classical economic theory, the producers of goods and services are assumed to operate in perfectly competitive markets for products, labor, and capital, where organizations are merely an epiphenomenon in a system driven by the price mechanism. In neo-classical economic theory, the organization is treated as if it were a single person, a self-interested, rational, and internally coherent actor competing with others in markets on the basis of invariant rules. Resource competition is expected to lead to an optimal distribution of specialized and efficient actors.

Organizational economics departs from this depiction by problematizing the organization as a more or less heterogeneous entity that does not normally act as a simple price-taker in perfectly competitive markets. It views the organization as consisting of individuals who pursue interests that do not automatically add up to a consistent organizational goal. People are seen as constrained in their capacity to act as economically rational decision-makers because of limited information-processing capabilities (March and Simon, 1958). Organizations require an efficient hierarchical control and incentive system to align the interests of all participants and to improve the quality of decision-making. Incentives are specified in formal contracts (e.g., employment contracts, profit-sharing arrangements) and informal agreements (e.g., goal-setting agreements, special awards), detailing the rights of each individual, the performance criteria for the evaluation of their contributions, and the pay-offs they can expect from the wealth the organization produces. The economic problem is that the negotiation and enforcement of contracts and agreements involves costs, which increase when the partners to the exchange have conflicting interests or interpretations. Small, family-owned and -controlled firms tend to face lower costs in this regard than large organizations, where specialized knowledge is widely diffused among individuals with different skills and orientations, but the division of interest between the owners of property (principals) and the employees (agents) introduces extra costs in all organizations. The principal's problem is how to devise a system of incentives that leads the agent to behave in ways consistent with the principal's interests. Uncertainties

and trade-offs arise because principals cannot normally achieve complete control over the work process, because of limited expertise, time constraints, and institutional regulations imposed from the outside. They may, therefore, delegate control to managers and supervisors, but delegation may itself create agency problems, raising coordination and control costs.

Achieving organizational efficiency means more than maximizing utilities in the allocation of scarce resources (Barney and Ouchi, 1986). Organizational economists ask the more basic question: Why do organizations exist in the first place? Given the costs of hiring employees, supervising them, evaluating their performance, settling disputes, and so on, it may be more efficient for organizations to purchase needed inputs on the open market than to produce them inside the organization. The economic answer to the question of externalizing (via the market) or internalizing production (via organizational hierarchy) turns on the problem of minimizing the transaction costs associated with coordinating economic exchange relations.

The various strands of organizational economics, dealing with property rights, principal–agency problems, and transaction costs, have proven useful for organizational analysis because they address a wide range of problem areas related to cooperation and control within and between organizations. Still, to many scholars, organizational economics does not go far enough to the extent that it takes an exclusively efficiency-based approach to organizations and treats the individual as driven solely by economic self-interest, while neglecting non-economic considerations, such as social status, justice, and reputation. These issues are taken up in institutional theory.

4.2 Organizational institutionalism

While there is no single, agreed-upon definition of **institution**, most scholars think of institutions as commonly shared and taken-for-granted cultural meaning systems (Jepperson, 1991), such as the idea that organizations have the right to hire those individuals they think will add value to the organization. Institutions play a central role in organizational life, by providing an evaluative and regulatory framework, through which organizations acquire reputation, credibility, and **social legitimacy**. Institutional conformity, stemming from the desire to “look good” in the eyes of constituents, helps organizations survive in uncertain economic environments (Scott, 2008).

Organizational forms are often not uniquely “optimal” in any meaningful sense because they are constructed in response to a variety of sometimes inconsistent institutional pressures. The expectation that, say, older job applicants be given the same opportunity as young applicants may collide with the expectation that older workers be given less physically demanding jobs. Some