Organizations:

Theoretical Debates and the Scope of Organizational Theory*

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Introduction

Organizational theory is one of the most vibrant areas in sociological research. Scholars from many subfields, (medical sociology, political sociology, social movements, education) have felt compelled to study organizational theory because of the obviously important role that complex organizations play in their empirical research. But scholars who do not do organizational theory are often struck at how arcane the debates are within organizational theory. They also think most of organizational theory is about firms and thus, the theory does not seem to have much application to other kinds of social arenas. The purpose of this paper is to present a way to make sense of the various strands of organizational theory. Organizational theories have three origins: Max Weber's original work on bureaucracies which came to define the theory for sociologists, a line of theory based in business schools that had as its focus, the improvement of management control over the work process, and the industrial organization literature in economics. Unlike many fields in sociology, organizational theory has been a multidisciplinary affair since World War II, and it is difficult to understand its central debates without considering its linkages to business schools and economics departments.

These three original lines of scholarship began to intertwine during the 1960s. There was a broad consensus around the theoretical perspective that could be called either the strategic contingencies or rational adaptation approach. The 1970s until the mid 1980s witnessed a critique of the rational adaptation perspective and the proliferation of alternative theories. I review many of these theories including institutional theory, Marxist, population ecology, power and the political-cultural approach, network

approaches, agency theory, transaction cost analysis, network analysis, the idea of path dependence, and economic evolutionary theory. Since the mid 1980s, these theories have come to define the terrain of our studies of firms, governments, and the nonprofit sector.

One of the reasons that outsiders find these debates so complex, is that they do not understand that the approaches have been developed in opposition to one another. The underlying dialogue is lost when readers do not know who scholars are arguing against. I begin by considering the small number of questions that organizational theory seeks to answer, then present the history of organizational thought and how it has attempted to answer those questions. I finish with a consideration of some frontier issues in the field. One of my main concerns is to consider the difficulty of synthesizing the theories or understanding if it is possible to specify the conditions under which a particular theory is useful. My other concern is to propose a few ways in which organizational theory is relevant to the study of governments, social movements, education, healthcare, and nonprofits.

Questions that Dominate the Field

One way to help make sense of a field, is to consider its main questions. Each of the theories takes a position on the main questions and on this basis tries to construct a general theory of organizations (see Scott (1992), Perrow (1986), Williamson (1985), for examples of what I mean). Scholars have criticized existing theories of organization and their answers to these questions. On the basis of their critique, they have developed alternative theories that they assume would subsume all other theories. This implies that

if one theory of organizations is right, then other theories of organization must be wrong. It is this assumption that has driven much of the development of organizational theory.

Organizational theory takes as its main object of study, the complex or formal organization (or what I will just call organizations) as a given. It is assumed that organizations have goals, hierarchy, rules, definitions of membership, and active conceptions of career paths for their members. Organizational theory is concerned with how the internal organizational structure works to motivate participants and produce outcomes consistent with the goals of those who control the organization. It is also interested in how the world external to an organization effects what goes on inside of a particular organization. Finally, it is concerned with how the internal organization and the external world can effect organizational survival. There are three questions that all theories take up.

One of the most basic questions in organization theory is the degree to which organizations persist because they are efficient. Some argue that competition forces organizations to allocate their resources in the most efficient manner. Others argue that organizational survival might depend on other factors, such as power and legitimacy in their environment. Even if one believes competition is an important force, competition varies across environments and hence, in some environments, there may be fewer pressures to allocate resources efficiently (Leibenstein, 1978). In this case, an organizational structure might persist because it has no competitors. Organizations could also aid their survival by coopting important actors in their environment. Creating monopolies, oligopolies, or cartels are ways to lessen competition (Pfeffer, 1981). Organizations might also get governments to intervene on their behalf for the good of

society. Not surprisingly, the economic and managerial literatures tend to start with the efficiency assumption, while the sociological literature has tended to be more agnostic about the question of efficiency. Sociologists are perfectly prepared to believe that organizational actors often find themselves in murky worlds where organizational survival is not so tenuous. They also think that organizational actors will do anything they can to survive, and the efficient allocation of resources might only be one such strategy to do so.

A related question concerns the degree to which organizations exist in environments that create hard or soft constraints. All organizations need to get resources in order to survive. Their relationship to their environment can have a decisive effect on their survival opportunities. Some organizational theories stress how environments are given as facts, produce high constraints for organizations, and contain a great deal of competition (Hannan and Freeman, 1977). These theories tend to argue that the organizations that survive are those with the best fit to the environment. Other theories tend to argue that environments are social constructions or "enactments" (Meyer and Rowan, 1977). These theories imply that people within a given organization can construct courses of action to try and coopt their environments. This cooptation can be in the face of hard or soft constraints. Organizations in soft environments might find themselves with fewer pressures. Even organizations in environments with hard constraints might be able to migrate to environments that are more conducive to survival. Generally, efficiency might be more important in environments where competition is high and organizations have few strategies to control competition or exit. However, if there is too much competition or resource scarcity, even organizations that might be functioning

perfectly well could expire. Conversely, in more socially constructed environments, it is difficult to assess the degree to which organizations were or were not efficient in their internal allocation of resources.

A third question is the degree to which leaders of organizations can change the way their organizations work in response to changes in their environments. The organizational literature has two stark contrasting views of this issue. On the one hand, is the idea that organizational actors can survey their environments, interpret what their problems are, and change their internal organization to promote organizational survival. This perspective is called "adaptation". The opposite point of view is that organizational actors are constrained. They have difficulty understanding what changes might make their organizations survive. They also have to overcome the opposition of others in the organization who are entrenched in how things already work. This limits make the possibility for change.

The Three Strands of Organizational Theory

In Weber's original formulation (1978), the first modern complex organizations appeared in governments. They were more efficient because they raised taxes, fielded armies, and were thus, able to control the means of violence in a given territory. Their hierarchical, bureaucratic structure meant that orders issued by people higher up in an organization were likely to be executed by those lower in the organization. The cooperation of lower order participants was secured by providing a salary and a career. It was this reliability and certainty that made modern states able to control more territory

and help them fend off their competitors (ie. other states or less organized groups such as the nobility or peasantry). As they got bigger and controlled more resources, the larger modern states literally killed off or absorbed the smaller states. Firms, for Weber, evolved using a similar hierarchical structure. Bureaucratic structures helped firms to organize to compete with other firms. Weber thought that firms proved to be efficient because if workers did what owners wanted, products would be cheaply and reliably produced and firms could effectively compete with other firms. Competition between governments and competition between firms resulted in organizations dominating the world of states and the economy.

Weber's analysis of bureaucracy was part of his more general theory of modern society. Weber felt that organizations were not just "tools" to accomplish goals, but they were systems of power. Organizational actors seek out power for themselves and attempt to enrich themselves at the expense of others. They could do this in any way possible including violent or illegal methods. One common way for organizations to aid their survival is to enlist states in their efforts. Weber's theory of class, status, and power was essentially a theory about how various groups in society would organize, create political parties, and try to take over state bureaucracies in order to direct privileges to themselves or their groups. Firms or industries could lobby with states to promote rules and laws that favored their interests. Here, organizational survival could turn on political connections and not efficiency.

Weber also thought that the issue of legitimacy could be important to organizational survival in several ways. First, people who worked in organizations had to be convinced to accept the authority of those who ran the organization. Careers, a sense of duty, and

salaries worked to promote this legitimacy. Second, organizations needed to be more legitimate in terms of the general society. So, the people who worked for governments had to convince citizens that the rules and processes that kept them in power were at some level in the public interest. Firms also had to attain some legitimacy in order for them to survive and prosper. They had to be perceived to be pursuing legitimate goals (ie. producing something of value) in legitimate ways (by competing to produce the best product at the best price). Weber argued that the rational-legal order underlying modern states and firms became a form of legitimate authority. To the degree that governments and firms became legitimate vehicles of social organization from the perspective of citizens and workers, this increased the likelihood of their organizational survival.

(Figure 1 about here)

Weber's analysis has been hugely influential, particularly in sociology. He identified the large organization as the modern way to organize. He understood that it was more efficient (ie. it beat out its rivals), and he was able to ground its legitimacy in his more general theory of society and institutions. Weber also reflected quite well the duality in organizational theory. At one level, Weber was convinced that organizations were efficient and that accounted for why they came to organize states and firms. But at another level, Weber realized that the entire system was political, there were interests at stake, and organizational survival could be attained by other means. Weber was not alone in understanding that the organization was at the heart of the modern economy and polity. Figure 1 presents a diagram with the three strands of organizational theory and their evolution over time. I will briefly review the strands in order to set up the ultimate convergence around rational adaptation theory.[1]

The second strand of thought emerged in economics, which of course, was mostly interested in organizations as firms. The firm has played a complex role in economic theory. Before neoclassical theory came to dominate economics after World War II, there were a variety of views about the firm and entrepreneurship in economics (Yonay, 1998). Berle and Means were institutional economists who were interested in the evolution of the ownership of large corporations in the U. S. Their book, The Modern Corporation and Private Property (1965) was an empirical study of the rise of professional management and the separation of ownership and control in large American corporations. Berle and Means were mostly skeptical about the value of this change in American corporations. They thought that managers were likely to engage in activities like pursuing growth over profits, stability over innovation, and raising their salaries, instead of working to make the firm more efficient. Their perspective on the firm informed the managerial theory of the firm and, later, agency theory.

Coase was one of the first economists to recognize that the existence of firms presented a problem for economics (1937). He reasoned that if markets were the most efficient way to organize transactions, then all transactions would take place between individuals and firms would not exist. But the fact that firms existed implied that under certain conditions it was more efficient to organize a firm (or a hierarchy), than to use a market. He invented the idea of transaction costs which were simply the costs associated with engaging in transactions. His early work tried to identify some of the kinds of costs that might come into play including the uncertainty of securing a supply for the goods and services that a firm produced. This article was ignored until its rediscovery in the 1960s.

Schumpeter was opposed to institutionalism in economics (Swedberg, 1991). Unlike Berle and Means, Schumpeter thought the large modern corporation was efficient, adaptive, and always on the search for new products and technology (1939). He saw it as the engine of capitalism, because it organized production and innovation efficiently. Schumpeter emphasized how firms had to compete or innovate or they would be out of business. His views would later find their way into discussions in transaction cost theory and evolutionary economics.

These approaches to the firm never totally disappeared. The issues raised by these economists fed into the intellectual ferment surrounding "rational adaptation" theory and the subsequent reactions to it. Indeed, the "new institutional economics" gets its main inspiration from these "old" institutional economics I just described. But, in the mainstream of economics, the firm disappeared as an object of analysis during the 1940s and 1950s. Neoclassical economics, with its focus on price theory and mathematics, came to develop a subfield called industrial organization. The basic idea was that the structure of markets should be determined by the costs and nature of market inputs, ie. land, labor, and capital. The price system would force entrepreneurs to make the right kinds of investments in plants and thus, the number, size, and integration of firms would reflect entrepreneurs making the right choices. Firms that would survive would be those that found the right mix of investments (see Stigler, 1968 for a set of essays on these questions; for a textbook statement, see Caves, 1980).

The main issue in industrial organization economics became trying to identify when market structures were in fact efficient and alternatively, when firms were seeking out oligopoly or monopolies. The main measurement used for these purposes was the

concentration ratio which represented the percentage of sales or assets that a small number of firms came to hold in a given market. The question was whether or not this ratio reflected economies of scale and scope or instead, the power of firms to monopolize. Industrial organization economics was not really interested in what went on in the firm, but only in the overall market structure as indexed by the concentration of producers. The firm was viewed here as a black box and it was unpacking this black box that became the center of the new institutional economics.

The third strand of thought in organizational theory originates with the practical concerns of managers. As soon as the large corporation emerged at the turn of the 20th century, the question of how best to organize it came into being. Taylor provided the most famous perspective (1911). He viewed the main problem of managers as figuring out how to cut labor costs by reducing the discretion of workers and increasing managerial control over their labor process. He viewed this primarily as an engineering problem that involved breaking down the tasks workers were asked to perform and reducing the number of motions and actions each worker would contribute to a product.

During the 1930s, scholars at the Harvard Business School pioneered an alternative to Taylor, what was called the "human relations" school (Perrow, 1988, ch. 3.). The basic idea recognized that the people who worked for a firm had to be motivated in order to do their jobs effectively. This meant that human psychology came into play in every interaction in factories and offices. The "human relations" school began when Roethlisberger and Dickson (1947) undertook a number of famous experiments at the Hawthorne Western Electric Plant where they demonstrated that workers productivity increased under any form of attention. The most interesting and important theoretical

statement that was subsequently produced was Barnard's The Function of the Executive (1968). Barnard recognized that management was a kind of general social skill whereby managers had to get people with very different interests and agendas to cooperate in order for the firm to produce goods reliably. He felt that the purpose of the organization was to help managers put into place different kinds of incentives to monitor people and make sure they did their work, and at the same time, insure their cooperation by making them feel part of the process. Barnard's work informed the work of Simon and March which eventually became the basis of the "rational adaptation" approach to organizations.

American sociology discovered Max Weber mostly via Talcott Parsons who translated many of Weber's works. Selznick picked up Weber's idea that organizational actors were highly politicized. He realized that people who ran organizations had interests of their own and that they would work to use organizations for those interests, even in public organizations. Moreover, organizational actors would do what they could make sure their organizations survived. Instead of organizations working for efficiency or the public good (in the case of government bureaucracies), they worked to reproduce their own power. His book, TVA and the Grassroots (1965), showed how various government organizations and organized private business groups coopted the TVA and diverted it from serving poor, low income farmers. This work founded the "institutional" school of organizational thought in sociology.

Gouldner (1954) showed that bureaucratic organizations in fact can be inefficient and down right dysfunctional. In his study of a wildcat strike at a gypsum plant, he showed that the plant was deeply embedded in the local community. This meant that the formal structures of the organization were not a good indicator of how the plant actually worked.

New management came in and tried to impose a more bureaucratic order to end the power of informal arrangements. Workers resisted this and the whole organization started to come apart. Gouldner's work shows that the informal structures of work organizations played a huge role in their ability to function.

The final set of studies came at Weber in a more quantitative fashion. Many scholars began by trying to verify if bureaucracies worked like Weber suggested. They created a set of measures to look at how many levels of hierarchy existed, how wide the span of control was in organizations, and how centralized decision making was. Blau and Scott (1962) published Formal Organizations that is the classic study in the structuralist tradition. As the 1960s proceeded, however, more and more studies began to doubt the basic outlines of Weber's model of bureaucracy. Instead of finding organizations as hierarchical, predictable, and unchanging, scholars were discovering that organizations were flexible and constantly changing. Hage and Aiken (1970) summarize this line of work.

THE CONVERGENCE AROUND RATIONAL ADAPTATION

I am, of course, reconstructing the story of the development of organizational theory with an eye towards seeing how the three schools of organizational thought begin to converge during the 1960s. An astute reader might decide that my point of view produces more convergence than there might have really been. My defense, is that scholars, particularly in sociology and business schools, began to read one another's work during the 1960s and they collectively contributed to finding common ground. While economists

working in the field of industrial organization have been less oriented towards work in the other disciplines, a few have read more widely. Not surprisingly, economists in business schools have been the most interested in this work. Business schools and journals of management have brought together scholars interested in a field called macro-organizational behavior.

My cursory history of organizational thought shows why scholars from these fields might come to orient themselves to each other. Economists, scholars in business schools, and sociologists understood that organizations were at the core of modern life. How organizations worked, whether they were efficient, and if they could adapt to changing circumstances were questions that motivated scholars in all three fields. In the mainstream of economics, firms were not an important object of study circa, 1960. But for economists in business schools, the puzzle of how and why firms worked and the idea that scholars could help make them work better, provided an impetus to try and advance the theory of the firm. For scholars who were teaching management in business schools, their main task was to train people to become managers (ie. MBAs). They had a huge interest in generating a theory that gave managers an important and heroic role in the functioning of firms. They realized that firms were about managing people and gaining cooperation. But, they needed some ways to understand how this problem resulted in the structure of the organization itself. Finally, sociologists began to realize that Max Weber's view of bureaucracies was an "ideal type". Organizations did not totally conform to his ideas and they looked much more political, adaptable, and less highly organized than Weber thought.

It was Simon (1957) and March and Simon (1958) who eventually began to answer these questions in a way that spoke to all of the disciplines. Simon critiqued the economic model of decision making in the firm. Economics argued that entrepreneurs (or managers) had perfect information and therefore could arrive at decisions that maximized profits. He identified two main problems with this model. First, managers rarely had perfect information and therefore always had to make choices under uncertainty. Second, managers could not process all of the information that they would need to make a decision to maximize profits, because they were not cognitively capable of doing so. This caused Simon to develop a model of actors who searched for relevant information and then made decisions to satisfice (ie. to get some of their valued ends). This produced the model of bounded rationality. Simon (and later March and Simon) realized that bounded rationality was at the core of how organizations really might work.

The basic insight was that the design of the organization was a strategy to deal with both lack of information and the inability of actors to be able to absorb endless amounts of information. The main way that upper level managers and entrepreneurs could do this was by constructing clear cut goals and standard operating procedures for lower level managers and workers (Simon, 1960). Meeting those goals simplified the process of gathering information for the higher level managers. If lower level managers fail to meet goals, then higher level managers have an easy way to monitor that. They can then respond to the situation and either alter the goals or redesign the standard operating procedures to attain those goals.

Standard operating procedures could also help in identifying organizational problems and inducing organizational change. So, for example, managers in the general office

could set sales quotas for each of their product divisions. Divisional managers will set goals for each of their product sales managers. To attain that target, the division manager knows that salespeople have to make five calls a day. The procedure for the product sales manager is to monitor the sales people to insure that they are making their calls. For the salespeople, their goal is to make those calls. If the overall goal is not being met, managers have information on how each salesperson is doing; ie. how many calls they make and what are the results of the calls. In this way, the general goals of the organization can be set quite high up. Lower down in the organization, goals are implemented and procedures are put in place to attain those goals.

If in a given quarter, sales dip overall in the firm, then the higher level managers can figure out exactly which products are meeting goals and which ones are not. They can also attempt to figure out why the goals are not being met. Is it the procedures (ie. processes), the people who are working for you (ie. are they shirking), or the market (is it turning down)? This feedback can be used to undertake new courses of action. These kind of feedback loops can be installed at many levels of the organization. This means that it might be theoretically possible to solve a problem before it reached crisis proportions. So, for example, if sales for a particular product started to slow, a lower level manager might discover this by watching inventory. They could then shift production lines to products which were selling more quickly. They could also pass this kind of information back to the sales department.

Simon and March created the grounds for a powerful synthesis for organizational theory by producing a model of actors that was more realistic. Instead of assuming the people had perfect information and were able to undertake courses of action that perfectly

maximized the use of resources, they realized that people had limited information and attention. Simon and March also hinted at how this affected the problem of motivating people to cooperate. If managers could not constantly surveil their employees, they could devise methods to minimize their opportunities to not act in the interests of the organization. Organizational design, the setting of goals, and the creation of standard operating procedures all worked to solve problems of bounded rationality on the part of higher up managers and constrain and monitor the performance of lower down participants. In doing so, they produced a powerful theory that helped solve many of the main problems that organizations faced: figuring out how to organize, motivating people within the organization to do their jobs, monitoring the performance of employees, and most importantly, opened up the possibility of using the organizational structure to respond to changes in the markets in which the firm was producing.

Their theory was not only analytic, but it was proscriptive. You could teach managers how to engage in organizational design that would motivate and monitor employees. You could also help them understand how to create reliable organizations by building standard operating procedures to make actions simpler. So, for example, Cyert and March (1963) discovered that department stores used a standard operating procedure to set retail prices by simply doubling wholesale prices for goods. Organizational design meant that scholars could help managers simplify the types of information necessary to evaluate whether or not the organization was being successful in its main markets. By evaluating that information (ie. the degree to which parts of the organization were meeting organizational goals), managers could make adjustments on the run. These adjustments could be relatively simple, like slowing down the production of a certain product. If many

parts of the organization were having difficulty reaching goals, these problems might end up at higher levels in the organization where new adjustments could be made.

The beauty of the Simon-March perspective is that provided answers to many of the questions raised by economists, business school scholars, and sociologists. Firms might not be efficient as economists hoped. But with a more reasonable model of rationality (bounded rationality) and the idea that actors never had perfect information, the people who ran firms began to look like people who got the most from their inputs given the human limitations of human cognition. For scholars in business schools, the Simon-March perspective honored the fact that human psychology was important to organizational functioning. It also meant that managers were important because of their role in framing goals, designing standard procedures, monitoring organizational performance, and altering organizational activities in response to information that could be relatively easily processed.

Sociologists found some of this attractive because they realized that organizations seemed more flexible than Weber suggested. It helped explain a lot of what sociologists were observing empirically. For instance, the fact that organizations had very different structures could be accounted for on the basis of the nature of what was being produced and what the main problems were in organizing and monitoring production. It also helped explain how organizations were making constant adjustments to environmental conditions, unlike what Weber seemed to suggest. Simon and March nicely tied together the problem of the link between the environment, the organization, its internal structuring, and the ability of the organization to alter its course of action in the face of failing to meet organizational goals.

During the 1960s, there was a great deal of empirical work that began to examine the ways in which organizational structures were different across different markets or environments (Lawrence and Lorsch, 1967; Child, 1973; Thompson, 1967). The basic theoretical approach in this literature was consistent with the rational adaptation model developed by Simon and March. It assumed that entrepreneurs and managers would build organizations that would allow them to respond to external problems by monitoring the goals and standard operating procedures in the organization. But, these perspectives offered two factors that would figure into how managers would do this. First, the technology of the firm would have a big effect on how it was organized. Generally, it was thought that complex technologies would require more complex organizational structures while simpler technologies would result in simpler organizations. Second, the nature of competition mattered as well. In industries or markets where competition was strong and market change was rapid, firms had to be more nimble and constantly adapting while in industries or markets where competition was less, firms could look more like slow Weberian bureaucracies. This approach to understanding organizational life came to be called strategic contingencies. The basic idea was that managers and entrepreneurs built their organizations according to the contingencies of their technology and environments. They would figure out what these were and strategically create organizational structures and procedures to help mitigate the effects of these factors. This literature eventually evolved to the view that an organization's dependence on its environment was the most important factor to explain its internal goals and structure. This view became known as resource dependence theory (Pfeffer and Salancik, 1978).

Circa the early 1970s, organizational theory looked as if it had created a theory that would solve all of its main problems. It could explain how organizations worked given the bounded rationality of actors and it could offer advice to managers about how to structure and re-structure their organizations to make them work better. It could also explain why some organizations looked different than others by focusing on differences in technology and competition. Smart managers and entrepreneurs could build more efficient organizations by understanding their environments and creating good organizational designs to fit those conditions. If they had the right design they could constantly monitor the environment by monitoring their ability to attain their internal goals and make adjustments as necessary.

REACTIONS TO RATIONAL ADAPTATION

As is often the case in the academy, as soon as a conventional wisdom emerges, dissidents appear and begin to take it apart. The 1970s and 1980s were a period of great intellectual ferment in the field of organizational studies. Scholars were attacking the conventional wisdom of the rational adaptation and strategic contingencies models. These attacks came many directions and reflected dissatisfaction with all or some of the assumptions of the model. One of the main sets of criticisms came from those who were trying to understand the nature of the environment more clearly. On one side were scholars who wanted to embrace stronger forms of environmental determinism. They saw competition and scarce resources as determinative for organizational survival (these scholars created resource dependence theory, population ecology, and economic

evolutionary theory) and underplayed the degree to which rational adaptation could occur. On the other side were those who saw environments as more social constructions. These scholars tended to think that managers and entrepreneurs had more degrees of freedom to change their environment. They also thought that under some conditions, environments were weaker in their effects on organizational survival. The idea of organizational field or sector came to signify the social constructedness of environments. This meant that actors within organizations had to do a better job of selling their vision of the organization to organizational participants and to other organizations in their fields. Both political and institutional approaches, and to a certain degree ideas about path dependence of organizations and institutions, picked up these themes.

A second criticism of the rational adaptation perspective came from Marxist scholars. These scholars attacked the theory as "managerialist", ie. focused on helping managers controlling workers. Their work sought to re-introduce class struggle into the model of organizations. This work went in a number of directions. First, it considered how the internal structure of firm was mainly meant to control and disorganize workers (Braverman, 1975; Edwards, 1979). This literature viewed the actions of managers and owners as fundamentally about exploiting workers to raise profits. Second, a literature began to grow to consider the organization of the capitalist class and its relation to running the largest firms (Useem, 1984). One of the main mechanisms of coordination that this literature proposed was the use of interlocking board of directors (Mizruchi and Schwartz, 1988; Mintz and Schwartz, 1985).

Many of the criticisms were oriented towards the rational adaptation approach to the internal structuring of the organization. Economic perspectives thought there was a

stronger link between the problem of economizing on costs and the internal structuring of the organization. Agency theory began to stress that the firm was best viewed as a nexus of contracts instead of a hierarchical organization (Fama, 1980; Jensen and Meckling, 1974). Transaction cost analysis viewed the writing of labor contracts and the setting of the boundaries of the firm as mainly determined by transaction costs (Williamson, 1975). Sociological perspectives came to see the internal organization as a response to the winners and losers of the intraorganizational power struggle. This power struggle effected the internal organization of the firm and the determination of organizational goals (Perrow, 1970; Pfeffer, 1981: Zald, 1970). Marxists theories saw the implementation of job ladders and internal labor markets as mechanisms to control labor.

Finally, many questioned how adaptation occurred. Political perspectives emphasized the interactions between organizations in the organizational field that revolved around the ability to build coalitions of like minded organizations (Fligstein, 1996). Once in place, political perspectives emphasized how difficult it was to get change without a major organizational crisis. Institutional theory came to see the environment as murky and emphasized the role of professionals in disseminating change and mimicry as the main mechanism of organizational change (DiMaggio and Powell, 1983). Scholars more committed to evolutionary views felt that there was little adaptation, particularly of large successful organizations (Hannan and Freeman, 1977; 1984). It is useful to review these theoretical perspectives in more depth.

ECONOMIC THEORIES AND MECHANISMS

In the 1960s, there were several forces at work that began to produce the "new institutional economics". By the late 1950s, mathematical economists became convinced that they could prove if there existed rational actors with perfect information who tried to maximize profits, markets were the most efficient way to organize a society's economic exchanges. As a result of this understanding, economists became more interested in the conditions under which markets failed to produce the most efficient allocation of resources. Economists noticed several things: information was never perfect and therefore actors could not make decisions without uncertainty. They also noticed that in real life, institutions, like laws, informal rules, norms, and organizations were ubiquitous and often took the place of markets. Scholars hypothesized that under conditions of uncertainty or imperfect information, institutions produced more efficient outcomes than markets. This general insight began to spawn a heterogeneous literature that became the new institutional economics. Scholars began to rediscover Berle and Means, Coase, and Schumpeter.

The transaction cost economics (TCE) of Oliver Williamson (1975; 1981; 1985) focuses on the cost of devising, monitoring, and carrying out economic transactions between or within firms, arguing that governance structures — "the explicit or implicit contractual framework within which a transaction is located (markets, firms, and mixed modes)" — are shaped by such costs (1981, p. 1544). Williamson acknowledges that he is following up on both Simon and Coase (1975). He assumes that economic actors are boundedly rational, and he further asserts that at least some actors will behave opportunistically, engaging in "self-interest seeking with guile" (1975, p. 26). Imperfect information raises the cost of contracting by making it more difficult to predict future outcomes. Opportunism makes it necessary to monitor transactions for malfeasance, further raising the cost of governance.

TCE argues that under certain conditions of high asset specificity, market transactions become subject to higher levels of opportunism and bounded rationality, making them

more costly to govern. Asset specificity refers to a situation in which resources necessary to carry out a transaction involve "durable transaction-specific investments" that cannot be used for another purpose without significant financial loss. This means that once asset specific investments have been made, neither buyer nor seller can turn to the market as a viable alternative, and it becomes particularly important to safeguard transactions involving asset specificity against the (costly) hazards of opportunism.

In Williamson's view, it is the job of the firm (or more generally, of governance structures) to economize on transaction costs. The firm's system of authority relations is crucial in this regard, for when transactions are internalized within a firm, opportunism can be reduced through the exercise of fiat. TCE uses the same general framework to explain vertical integration, the creation of the multidivisional form and other hierarchies, the emergence of conglomerates, and the separation of ownership and control in large firms (1975; 1985). Recently, Williamson tried to explain more complex forms of contracting such as alliances, networks, and cross ownership patterns that appear in corporations across the world arguing that such forms of contracting economize on transaction costs when there is interdependence between organizations, but not enough to merit full scale merger.

Agency theory views all social relations in economic interaction as reducible to a set of contracts between principals and agents. Principals are individuals who select agents to do their bidding in some matter. The key problem is aligning the interests of the agent such that they do not act against the interests of the principal. This requires writing a contract (sometimes explicitly, sometimes implicitly) that provides safeguards for both the principal and the agent. Such contracts must provide principals with a way to monitor agents, and must create incentives for each side to carry out its part of the bargain (Jensen and Meckling, 1974).

In agency theory, the firm is seen as a fictitious entity created by a "nexus of contracts" of the principle-agent variety. In this respect the firm is no different than the

market: it "has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between two people" (Alchian and Demsetz, 1972: 119). Instead, the firm is a system of property rights that defines a set of principle-agent relations and divides up claims to assets and residual cash flow (Fama and Jensen 1983a; 1983b). The principal, an owner, hires employees to do part of the work. They are paid a wage and in exchange usually, though not always, relinquish claims on the profits. The contract to which they agree contains specifications of their duties, their rewards, and the rights of the principal to monitor their performance.

Agency theory argues that different divisions of property rights — the joint stock company, partnerships, sole proprietorships, non-profit organizations — arise because these forms of organization are efficient under specific conditions. Basically, depending on the severity of agency costs (i.e.. the costs of structuring, bonding, and monitoring a set of contracts among agents with conflicting interests), an alternative division of property rights makes sense (Fama and Jensen, 1983b). For example, the joint stock corporation under management control is likely to thrive when the cost of setting up the firm is prohibitively high, the type of knowledge necessary to manage the firm is specialized, there are large economies of scale, and there are persons who are willing to supply capital on the hope of obtaining residual claims that are already discounted for agency costs (Fama and Jensen, 1983a). Under these circumstances, the classic separation of ownership and control occurs. But according to agency theory, this arrangement does not lead to inefficiency. Instead, ownership and management interests are aligned through three mechanisms. First, managerial pay is linked to firm performance; second, boards of directors monitor managerial action; third, the market for corporate control effectively sanctions managers who misuse financial assets, even if boards of directors have been co-opted. In this account, the firm is efficient, even if product markets are not.

New institutionalist accounts usually retain the assumption that observed markets are either in or approaching some form of equilibrium. A more radical perspective on this

issue is taken by what we label evolutionary theory in economics. Arthur (1988; 1989) argues that economic institutions may have random starts. Thus, history and accident will play some role in the origins of economic modes of organizing. At these originating moments, there may be several ways to organize production, none of which have any obvious advantages. Arthur has argued that during the dynamic processes whereby markets are built, one or another form of organization may have some slight advantage. Over time, institutions grow up around a certain organization, and they tend to reinforce that organization's advantage.

Arthur terms this process a "lock-in". The process by which this lock-in occurs is a set of tiny, discrete steps that over time make a given set of arrangements institutionally embedded. Once in place, they become difficult to dislodge. Economic processes are thus dynamic up to a point, but once a lock-in occurs around a particular form of organization, markets become stable and less dynamic. Market processes that evolve in this fashion are termed "path dependent". Arthur has studied a number of processes with this model including the introduction of new technology, the location of urban agglomerations, and the creation of technological centers such as Silicon Valley and Route 128 in Boston (1988; 1989).

A different view of evolutionary dynamics comes from Nelson and Winter (1982). They argue that markets are continuously dynamic and never reach equilibrium points. This means that firms are constantly being confronted by unstable market conditions. In response, firms attempt to find ways of reproducing themselves over time. They do so by creating competencies that embed organizational procedures. The standard operating procedures of a firm both produce products, but also serve to monitor problems. They provide feedback to decision makers about changing conditions internal or external to the firm.

In this elegant way, Nelson and Winter are able to combine March and Simon's view of organizations with a dynamic view of market processes. Firms that fail to develop such

competencies go out of business, while firms that do can prosper for relatively long periods of time. However, market processes can occasionally overwhelm even the most stable firms. This perspective does not explain which competencies will emerge from the formation of markets. But, it does suggest that once they emerge, they tend towards reproduction precisely because they have reliably led to reproduction in the past. A set of arrangements, once in place, will resist transformation because the owners and managers of firms will stick to procedures that have brought them success in the past.

SOCIOLOGICAL THEORIES OF ORGANIZATION

I consider five general sociological approaches that are relevant to comparisons of corporate organization: population ecology (Hannan and Freeman, 1977; 1984), neo-Marxist approaches (Mintz and Schwartz, 1985; Mizruchi and Schwartz, 1994; Edwards, 1979), political approaches (Pfeffer, 1981; Campbell and Lindberg, 1993; Fligstein, 1990; 1996), and institutional accounts (DiMaggio and Powell, 1983; 1991; Meyer and Rowan, 1978; Scott and Meyer, 1994), and network approaches (for a review, see Powell and Smith-Doerr, 1994).

The population ecology approach begins with the view that the rational adaptation model focuses too heavily on adaptation. Hannan and Freeman (1977;1984) have argued for an alternative view of how and why organizations change. They argue that most organizational change occurs at the population level. That is, when a population of firms first appears, they begin to compete for scarce resources. Some organizations will flourish and others will die. Those that have the best fit to the niche will survive precisely because they will be organized in such a way as to find the resources they need to produce outputs in a reliable fashion. This is a process whereby the environment or niche selects organizations that have positive survival characteristics.

Population ecology explains several important facts about organizational life. First, young organizations tend to die more frequently than older organizations. This is called the liability of newness. This occurs because: 1) there may be too many organizations in the niche given the resources available, 2) the actors in the organizations have not deployed their resources in an efficient manner and therefore cannot produce outputs reliably, and 3) the organization or its products lacks legitimacy. It also explains why established organizations tend to not change. Organizations that are established have ties to other organizations, are able to obtain needed resources, and most important, are able to produce outputs reliably. Changing how a stable organization works is potentially life threatening for that organization (Hannan and Freeman, 1984).

Marxist approaches begin with the criticism that rational adaptation theory is too managerialist in focus. There are two sorts of approaches to understanding organizational dynamics. First, Marxists are interested in how the labor process is organized and reorganized in order to extract more surplus value from workers. Braverman (1975) made the case that there had been a general downgrading of skill in work over much of the 20th century. Firms got bigger and needed more managers. But lower level jobs were subdivided and deskilled. In a historical analysis of firm labor market practices, Edwards (1979) argued that there have been three sorts of labor regimes in organizations: direct, technical, and bureaucratic control. Direct control involves direct supervision, technical control involves the use of machines to organize and "oversee" work" and bureaucratic control implies the use of job ladders and seniority to give workers careers. He argued that each emerged to solve problems of the firms related to the conflict between managers and workers.

There also appeared a line of research that was interested in the organization of the capitalist class. This literature took issue with the managerialist assertion that firms were under the control of managers not owners. It attempted to show that many firms still had family ownership (Zeitlin, 1974). It also began to develop the idea that the upper level managers were very much allied with the remaining capitalist class (Useem, 1984). A large

number of studies appeared that examined board of director interlocks as mechanisms of coordination for the capitalist class (Mizruchi and Schwartz, 1992). There was also the assertion that banks, which were central in interlocks, were the main source of control over firms (Kotz, 1978; Mintz and Schwartz, 1985).

Rational adaptation, resource dependence, and population ecology all assume that the environment is a fixed hard constraint on organizations. Political and institutional theories pursue the notion that resource dependence is socially constructed, leading some scholars to focus more on how firms constructed or enacted their worlds. Pfeffer (1981) opened this line of argument by demonstrating that power in and around organizations was a reflection of two factors: real resource dependencies of organizations and the ability of actors to articulate a position whereby they were uniquely positioned to solve those problems. Pfeffer's argument on this question was complex. On the one hand, he was prepared to argue that those who controlled the organization were those who could deliver stability of the organization. This stability would be based on their reading of the prime resource dependencies and the designing of courses of action to coopt those dependencies. On the other hand, he was prepared to believe that at some level, resource dependencies were themselves socially constructed and therefore, part of what made certain actors powerful was their ability to convince a political coalition within the organization that their analysis of the organization's problems was correct.

Fligstein has expanded on these arguments and created what he calls a political-cultural approach (Fligstein, 1990; 1996). He argues that the basic problem facing organizational actors is to create a stable world so that the organization can continue to exist. This necessitates the construction of an organizational field in which actors come to recognize and take into account their mutual interdependence. Fligstein argues that these understandings are reached through political processes. Generally, the largest organizations develop a collective way to control the organizational field and they impose it on the smaller organizations. There are two problems involved in creating a stable organizational field:

finding a set of understandings that allow a political accommodation in the field, and the legitimation of those understandings by governments. Fligstein (1990, ch. 1) calls such a set of understandings a conception of control.

From this perspective, states are implicated in all features of organizational life. The organizations and institutions of the state make and administer the rules governing economic interaction in a given geographic area, and they are prepared to enforce those rules, in the last instance through force. The state's claims to set the rules for economic interaction is social in origin, and as such it is contestable. The process by which these rules are set up, transformed, and enforced is therefore an inherently political process. It follows from this that the local politics and existing practices of nations will have profound effects on the form, content, and enforcement rules in organizational fields (for a similar approach, see Dobbin, 1994). The formation of organizational fields will depend on the politics in the field and the relation between the field and the state.

Campbell and Lindberg (1989) argue that the state shapes the institutional organization of the economy mainly through the manipulation of property rights. It does so in response to pressures from economic actors, but also as a result of political choices made by actors in the state. Campbell and Lindberg define governance structures as "combinations of specific organizational forms, including markets, corporate hierarchies, associations, and networks (e.g. interlocking directorates, long term subcontracting agreements, bilateral and multilateral joint ventures, pools, cartels)" (1990: 3), while they see property rights as "the rules that determine the conditions of ownership and control over the means of production" (1988: 2). Their basic assertion is that state actors manipulate property rights to help ratify or select certain governance structures. Using evidence from seven major U.S. industries, they argue that the American state has actually had a very powerful role in the American economy by approving or disapproving of varying arrangements (Campbell, Hollingsworth, and Lindberg, 1991).

Institutional theories (DiMaggio and Powell, 1981; Meyer and Rowan, 1977; Scott and Meyer, 1994; Zucker, 1977; 1987; 1988) complete the conceptual transition away from environments as fixed entities, focusing almost exclusively on "the socially constructed normative worlds in which organizations exist" (Orru, Biggart, and Hamilton, 1991: 361). As firms interact with each other and with their environments, formal or informal rules emerge to govern interaction, and organizational fields are formed. Once these fields become institutionalized, however, they take on an independent status that has a powerful normative effect on subsequent interaction. Once socially defined institutional environments are in place, changes in organizational form are driven more by considerations of legitimacy than by concern for rational adaptation or efficiency. This causes organizations to become more and more like one another. DiMaggio and Powell (1981) identify three sources of this isomorphism: coercion, mimicry, and the enforcement of norms. The main actors in this process are professionals who espouse a certain point of view and influence mimetic or normative isomorphism, and governments, who can coerce organizations to conform.

The Scott and Meyer volume (1994) contains a set of interesting empirical studies that illustrate these points. Two sorts of processes are illustrated in these studies. First, the construction of meanings and the role of organized groups such as firms and states is usefully elucidated. Second, much of the work concerns the diffusion of shared meanings. Once institutions are invented, they spread, often with remarkable speed, across settings. Institutional theory implies that once a set of institutions around these issues were in place, they would be very difficult to dislodge. Further, new organizational innovations would tend to spread to organizational fields that were close together, while more distal fields would be late adopters. Institutional theory would tend to support other theoretical views that unique institutions might evolve across societies and that they would create stable patterns of difference impervious to market interactions.

Network approaches have also proliferated in organization theory. Networks can be broadly conceived as all of the social relationships that exist between a given organization

and other organizations. Network analysis is a strategy to gather data and use techniques to assess how the structure of social relationships might be consequential for organizations. It is less of a theory and more of a mechanism. Scholars with very different theoretical perspectives use network analysis in a variety of ways. So, Marxists interested in the organization of the capitalist class have used board of director interlocks as network data that reveal the underlying structure of those relationships (Mintz and Schwartz, 1985, Mizruchi and Schwartz, 1987). Other scholars have viewed networks as ways to coopt resource dependencies (Burt, 1983; Stuart, et. al. 1999). Still others have viewed network relationships as forms of information flow (Davis and Stout, 1992). DiMaggio (1985) has tried to use network relationships to help specify the structure of an organizational field. Powell and Brantley (1992) have argued that networks can be a method by which organizations "learn". This is a kind of a strategic contingency approach to networks, whereby firms pay attention to what their competitors are doing in order to learn about what they should do. Powell and Smith-Doerr (1994) review all of the various theoretical ways in which people have used network analysis.

THE PROBLEM OF INCOMPATIBLE THEORIES

The great ferment in organizational theory has produced an explosion of empirical research. There have been attempts at synthesizing theories or trying to test theories as alternative accounts. My opinion is that these attempts have not succeeded at producing consensus around theories. It is probably fair to say that there is also not much consensus about the scope conditions for theories (ie. the conditions under which various theories should apply). There are two ways theories get used that depend on whether scholars are being deductive or inductive. Some scholars have overriding intellectual commitments to one theoretical perspective or another and they find empirical cases to illustrate the relative

explanatory power of their perspective. Other scholars have empirical cases and try and discover which theoretical or conceptual tools are useful in their case.

To some degree, the various theories are focused on different empirical objects. Population ecology studies birth and death processes in populations of organizations. Political approaches study relationships between organizations and the construction of fields. They also consider how governments and organizations interact. Scholars interested in innovation, adaptation, or organizational learning, study how particular innovations diffuse across a set of organizations. Transaction cost analysis focuses on demonstrating how asset specificity affects transaction costs and how these in turn affect the boundaries of the firm or internal labor markets. Agency theory concentrates on problems associated with the writing of contracts and monitoring and the functioning of the market for corporate control. Marxists are oriented to showing how class struggle informs organization interactions. In this way, one could argue that theories are observation laden and the very different organizational theories focus on very different empirical observations.

For sociology in general, this is probably the usual state of affairs. Subfields are defined by many approaches to a conceptual object. What is unusual in organizational theory is the number of approaches and the large amount of empirical work that this has generated. Given the importance of organizations in modern society, we have lots of ways to think about them. People have studied business, business history, governments, and nonprofits from the perspectives developed by organizational theory. Given how big of a niche organizational studies occupies (ie. how many scholars are involved in studying organizations), it is not surprising that there are lots of schools of thought able to occupy that niche.

USING ORGANIZATIONAL THEORY IN OTHER SUBFIELDS

I began this review by suggesting that organizational theory could prove useful for other fields in sociology. I would like to end it by considering what conceptual or theoretical tools

various fields might usefully borrow from organizational theory. One of the most useful ideas in organizational theory is the conception of an organization's environment as a field or sector. This alerts scholars to the problems particular organizations have in dealing with resource dependence, legitimacy, and their relationships to other organizations and if relevant, the state. Scholars interested in healthcare organizations, educational organizations, and social movement organizations can benefit by understanding how organized the field is, the position of various organizations in the field, and the difficulties that those organizations face. Organizational theory usefully offers concepts to guide the construction of research designs in such efforts.

Resource dependence and strategies organizational actors use to coopt fields often help explain organizational behavior. So, for example, Voss and Sherman (2000) have shown that one of the reasons that many unions have not responded to the downturn in union organizations, is that for many unions, their has been no downturn. They often live in stable worlds whereby they continue to do the things that they do, just as organizational theory would predict. It is only when directly threatened or the possibility exists to open up a new set of workers to be organized, that unions begin to act.

Institutional theory has much promise for the study of law, politics, and nonprofit organizations. The role of professionals in organizations, problems of legitimacy, and the creation of standard legitimating frames for organizations are central to organizational worlds where it is difficult to judge what is efficient or even effective. This perspective helps explain that in such fields, one would expect that the problem of appearing legitimate is very important. Thus, credentials and professionals are involved in certifying that actions are "up to date" and "modern".

Organizational theory has produced a large number of theoretical ideas to help make sense of how much of our society is organized. It offers us insight into the construction of fields, sectors, and environments, offers us clues as to how to understand what organizational actors are up to, and considers the types of problems organizations have. It

gives us leverage under when and where organizational change might occur and perhaps, even more important, why it is so difficult to attain. Theoretical elements do imply very different mechanisms about how the world works. But, this means that scholars can choose theoretical elements that seem most relevant to their cases. From the point of view of scholars who want to use organizational theories, this might be an ideal situation.

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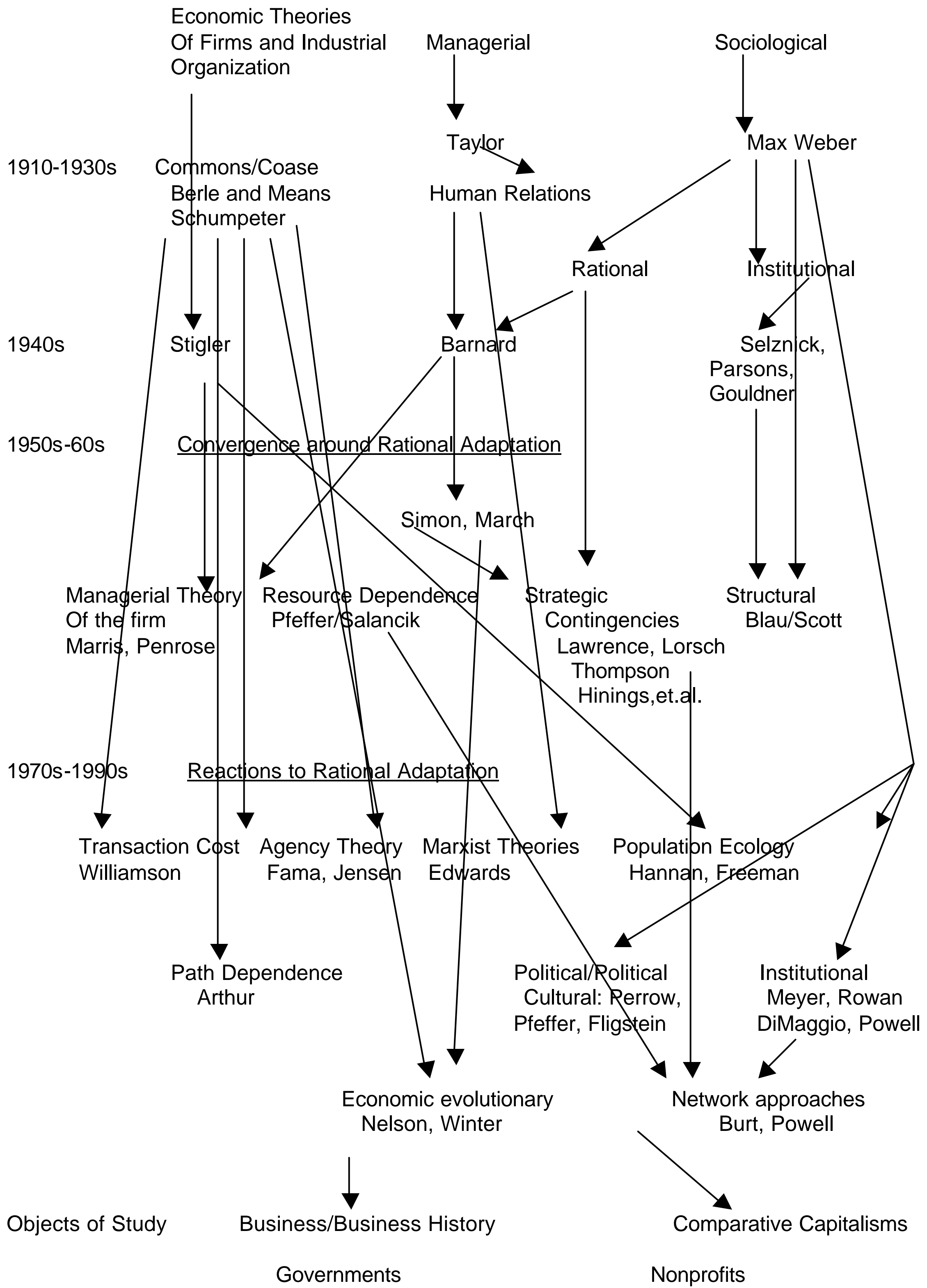

[1] I have selected authors who are representatives of schools of thought. This means that I may have left out some authors who also made important contributions. I have also simplified the history of organizational theory in order to make it easier to understand for scholars who do not do organizational theory. The real history of the theorists and the theories is much messier. My simplification is an attempt to organize some of the key issues and the key perspectives on those issues.